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

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Abstract: Proponents of globalization are increasingly concerned about the sustainability of their dream in the face of widespread pubic opposition. It is important for economists to understand the sources public dissatisfaction with the current incarnation of globalization, and to find means of addressing these concerns, either through better communication, or by making appropriate adjustments to their policy recommendations. This paper contributes to the literature on the sources of discontent, with particular focus on poverty and inequality in developing countries. It suggests the public will have more interest in poverty reporting which includes total headcounts rather than poverty incidence, and which acknowledges non-monetary dimensions of poverty. In regard to inequality, statistics that focus on absolute gains from globalization, and on changes in top to bottom ratios, are likely to have more resonance than statistics which attempt to summarize the shape of the income distribution. The final section of the paper explains concerns about 'corporate globalization' and suggests that this is a field worthy of more attention by economists.

Introduction

Economic globalization is a surprisingly controversial process. Surprising, that is, to the many economists and policy makers that believe it is the best means of bringing prosperity to the most number of people all around the world. Proponents of economic globalization have had a tendency to dismiss dissent and criticism as being the result of ignorance or vested interest[1]. They claim that anti-sweatshop campaigners do not understand that conditions in the factories owned by multi-nationals tend to be better than those in comparable domestic firms in developing countries; that environmentalists are denying the world's poor of the right to develop freely; and unionists in developed countries are protecting their interests at the expense of the workers in poorer parts of the world.

Bhagwati (2000, p.134) provides a good example of the reaction that criticism of globalization has raised among some of its proponents:

> *"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."*

Ignorance and vested interest undoubtedly do play a part in motivating *some* of the claims of *some* of the critics. However, this does not mean that brushing aside all criticism and pushing globalization forward undeterred is the best reaction[2]. There are at least two good reasons why proponents of

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[1] Bardhan, 2003
[2] Micklethwait & Wooldridge, 2000

economic globalization should try to understand and engage with their critics. The first is that many of the criticisms highlight genuine imperfections in the current course of globalization. The second is that involvement of the full range of opinions is an important part of the democratic process. If globalization's proponents achieve their goal by force, they risk eroding the social capital required to sustain it[3].

The purpose of this paper is to provide a critical overview of the globalization debate, particularly as it relates to poverty and inequality in developing countries. This is a broad topic to approach in a single paper, and unfortunately requires extensive use of generalizations. In light of the first of the motivations for the paper, I will concentrate on the issues and opinions that I think are relevant to economists and policy-makers. Choosing this set of 'valid' concerns is is of course a significant value judgment, and necessarily involves a massive simplification of the debate. I make this simplification reluctantly, for one of the most striking features of the 'anti-globalization' movement, is the diversity of issues and opinions that it encompasses.

An examination of the arguments on both sides of the globalization debate reveals apparent differences in facts, differences in choice of facts, and different interpretation of the same facts. In order to untangle these differences, two approaches are needed. The first approach is a descriptive and quantitative one. It involves detailed cataloging of the facts as they are presented on both sides, followed by quantitative work to understand how the apparently contradictory facts arise. Sala-i-Martin (2002) and Wade (2002) provide excellent examples of this approach to the debate over poverty and inequality outcomes.

[3] Many economists are concerned about the potential impact of a broadening backlash against globalization. See for example Rodrick (1997); Graham (2001); Graham, Birdsall & Pettinato (2000); Irwin (2002); Drabek (2001). The collapse of the last two rounds of WTO negotiations, at Doha and at Cancun also highlight the fragility of the current form of globalization.

The second line of attack is theoretical and conceptual. It involves identification and formalization of the underlying assumptions and motivations of both sides of the debate. To understand why different facts are concentrated upon, and why the same facts may be interpreted differently, we need to understand the different sets of values, preferences and world-views. Several important contributions have been made along these lines, including Kanbur (2001), Ravallion (2003), Deardorff (2003), and Elliott, Kar and Richardson (2003). The current paper will present the contributions of these and other authors within a hopefully unifying framework. It concentrates particularly on why some views of trends in poverty and inequality are so pessimistic, when economists are generally optimistic about these same issues.

In the latter part of this paper considers the evidence on whether globalization has been responsible for the observed trends in poverty and inequality. It suggests that the causation is not as clear as either proponents or critics tend to claim, and that there is a need to examine specific linkages in more detail. The final sections summarize the points of consensus that have emerged from the empirical research to date, and highlight some specific issues and linkages that are worthy of further investigation. Particular attention is paid to concerns over 'corporate globalization', an issue that has been very prominent in the minds of the public, but not so in the minds of economic researchers.

Globalization and Anti-Globalization: a brief introduction

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

Primarily when globalization is referred to here, what is actually meant is global economic integration. Global economic integration is increasing, partly due to improvements in technology and decreased transportation costs. However, the pace and extent of integration is also a product of deliberate policy choices. In particular decreasing government involvement in national economies, and relinquishing some national autonomy to international institutions such as the World Trade Organization (WTO).

In this paper I will generally refer to critics of globalization, and avoid talking about the 'anti-globalization movement'. I do this for two reasons. Firstly, many of the concerns and positions that I discuss may be attributed to a far broader segment of the population than merely those that are actively involved in any movement. Secondly, as has been noted by many leading authors[4], 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[5]. Naomi Klein, 'unofficial spokesperson of the movement' has this to say about the term[6]:

> *"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]

I consider the continued use of a term that is so clearly inaccurate to be very unfortunate. We may speculate to what extend its persistence is due to a lack of a catchy alternative, and to what extend it is cynically propagated by vested interests. Regardless of the cause, the continued use of the term has a

[4]See for example Sen, 2002; Kanbur, 2001; Ravallion, 2003
[5]See for example Kortan (1996)
[6]The continued use of the term is unfortunate, and may simply be the cause
[7]Quoted in Chihara (2002)

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[8].

There are four distinct but related issues that are a source of much of the concern and opposition to globalization. The first issue is not an objection to globalization in principle, but rather to the hypocritical way in which it is being implemented. Oxfam International is the most prominent non-profit organization (NPO) for whom the major concern with globalization is its biased application, as exemplified by the agricultural policies of the US and EU[9]. This form of objection is the one that finds most sympathy among academic economists[10].

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

The third aspect of globalization that raises objections is economic policy. In particular, what are variously referred to as 'neoliberal' or 'Washington Consensus' economic policies. These policies

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[8] For example Jagdesh Bhagwati is an outspoken critic of the 'anti-globalization' movement, yet his opinions are so close to many people in that so-called movement that he is quoted extensively by them (see for example Lopatin, 2003).
[9] See for example “Rigged Rules and Double Standards”.
[10] See for example Deardorff (2003) and Bardhan (2003)

include decreased state involvement in the economy, both as a service provider and regulator, and increased openness to international trade and capital flows. The conflagration of neoliberal economics and globalization in the minds of critics is not an accident. Economic policies designed to facilitate globalization are neoliberal policies, and, once an economy is integrated to the world economy, it is increasingly difficult to sustain any other form of economic policy even within national borders[11]. To the extend that globalization does preclude the provision of public goods by the government, social insurance, and environmental regulation, it would be fair to say that many people are genuinely opposed to globalization. These sorts of policies are almost certainly incompatible with what Rodrick (2002) calls 'deep' integration.

The forth and final contentious aspect of globalization is the rise and rise of the big corporations. Whether by active design or by the inherent nature of the process, large corporations often emerge as the biggest gainers from globalization. Dissatisfaction with this pattern has led many critics label the the current course of globalization as 'corporate globalization'. It is important to note that for many people, benefits to large corporations enter their personal utility functions negatively. There are two main reasons for this. Firstly, they may assume that if corporations benefit, someone else must be loosing, or at least gaining less than they deserve. Secondly, they draw the link between money and power. They consider corporations already too powerful, they do not like or trust large corporations, and they feel very uncomfortable with the fact that many corporations are richer and more powerful than the governments of the countries in which they are operating[12]. Thus even a change that increases personal income may be considered welfare decreasing if a large corporation benefits disproportionately more. The importance of this point to the debate over globalization is difficult to

[11](Rodrick, 1997; Gray, 1998)

[12]Of the largest 100 economies in the world, 52 are now corporations. From http://www.thirdworldtraveler.com/Globalization/Globalization_FactsFigures.html, attributed to Institute for Policy Studies, Top 200: The Rise of Corporate Global Power, 2000.

overstate, yet economists have almost completely ignored it to date.

Thus is can be seen that the bulk of objections relate not to globalization in principle, but do object to particular aspects of the way globalization is currently occurring, and would be likely to object to a further push for 'deep' globalization. In order not to fuel artificial divisions, I will refer in this paper to criticisms of Biased-Corporate-Deep (BCD) globalization.

There is one final semantic issue that is worthy of attention before moving on, and that is the difference between globalization and the increased integration, or openness, of a particular country. These concepts are often used interchangeably by authors, or globalization is used where openness is meant. However, *globalization* comes about as the result of many countries individually increasing their *openness,* or alternatively their *integration* with the global economy. The distinction is important because the impacts of the two processes may be distinctly different. For example, the Trade and Development Report, 2002 (UNCTAD, p.IX) notes 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.

Is globalization bad for the poor?

Anyone who has attempted to follow the globalization debate will have noticed the remarkably contradictory claims made by the two sides in regard to this very fundamental question. Those in favor of the current brand of globalization claim that there have been significant gains against global poverty, as well as decreases in inequality in the last 20 years, and that liberalization of economic policies has been responsible for this achievement[13]. At the other extreme, some critics claim that globalization and neoliberal economic policies have led directly to increases in both poverty and inequality. The rich are getting richer and the poor getting poorer[14]. Both sides have backed up their claims with 'facts', but instead of a clear truth emerging, there has been an increasingly complex 'numbers debate'. Two good examples of the complexity and rigor of the numbers debate are Wade (2002) and Sala-I-Martin (2002), who both, after much complicated computation, appear to confirm their own priors.

Thankfully, some leading authors have turned their attention to explaining this phenomena. Kanbur (2001) asks the questions: *"How can people with seemingly the same ends disagree so much about means, and how can seemingly the same objective reality be interpreted so differently?"* Ravallion (2003) provides a *"non technical commentary on the conceptual and methodological differences underlying the 'numbers debate' on globalization"*. Bardhan (2003) also provides some insight into the mystery.

These authors, along with the more rigorous participants in the 'numbers debate' suggest answers to the puzzle. Firstly, apparently simple words can mean very different things to different people. Secondly, apparently simple statistics can be very complicated to calculate, and depending on the methods used, the results can be very different. Thirdly, the link between policy and the outcomes observed has not been as strongly established as either side claims. I will examine the first and last of these explanations below. I do not address the differences arising from the difference in the details of the methods used to calculate poverty and inequality measures. For excellent coverage of this topic see Ravallion (2003), Wade (2001) and Sala-i-Martin (2002).

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[13]See for example World Bank, 2002; Dollar, 2001; Berg & Kreuger, 2003

[14]See for example IFG, 2002

Differing Definitions

The purpose of this section is to highlight and explain the differences in the concepts of poverty and inequality generally employed in the debate over economic globalization. It is not intended as a review of the extensive literature on poverty and inequality measurement, though it will draw from that literature.

Poverty

The choice of definition of poverty and inequality are driven by philosophical, practical, and political considerations. In regard to poverty, there are three dimensions along which the definitions tend to vary:

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

<u>Level of Aggregation</u>

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

Kanbur (2001, p.1087) explains this difference in perception as being due to differences in the 'geographical aggregation' and 'time horizon' over which people consider poverty outcomes. According to Kanbur, critics of globalization tend to have more disaggregated geographical perspectives. He explains their more local perspective as follows:

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

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

Undoubtedly political biases do play a role, but this is certainly not all the answer. A more constructive conclusion is simply that the opposing groups have in mind different social welfare functions. Those concerned with losses to any already poor group, may be viewed as applying a Rawlsian social welfare function[15], while economists tend to assume a utilitarian social welfare function[16].

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 BCD globalization refer almost without exception to the total number of people living in poverty. The following "Globalization

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

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

Facts and Figures" collected by the International Forum on Globalization[17] 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"*

We can understand the different focus of the two groups very easily if we consider the advantages and disadvantages of the two concepts. If we want to make inter-country comparisons, for example, then poverty incidence makes much more sense as a measure[18]. Poverty incidence also allows the poverty outcomes of a policy to be evaluated independent of the impact of population growth. These are all things that economists and development specialists wish to do. These groups are also very concerned with progress towards poverty eradication, and believe that poverty incidence is better indicator of how easy or difficult it will be to eliminate poverty in a particular country[19]. Thus, a decrease in the poverty incidence is considered to be progress against poverty, purely because the country is now in a better position to fight poverty in the next period, even if the total number of poor has not changed or has risen slightly.

For people outside the economics profession, the utility of a poverty measure as an analytical tool is less important. Their focus tends to be directly on the goal, and that goal is to minimize the number of people that are deprived of basic needs. Thus they do *not* consider progress against poverty to have

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

[18]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.

[19]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.

been achieved when the incidence of poverty falls but, the total number of poor people rises[20]. 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[21].

Monetary verses Multi-Dimensional Measures

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

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

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

Though harder to quantify, *empowerment*, *participation*, and *vulnerability to shocks* are also gaining acceptance as important dimensions of poverty[22]. 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

[20] According to Chen & Ravallion (2000) this is exactly what happened at the global level during the 1990s.

[21] 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.

[22] Kanbur, 2001; World Development Report, 2000

us?" was published by the World Bank in 2000. They found that poverty was indeed multi-dimensional, and that lack of material wellbeing, humiliation, absence of basic infrastructure, illiteracy, illness, and lack of physical assets (as opposed to income) formed the major issues.

Unfortunately, despite the growing consensus in the development community, there is a continued lack of application of multi-dimensional concepts of poverty in empirical work on globalization. The primary cause for this is a relative lack of data coverage, both in spatial and temporal terms[23]. Additional causes include lack of familiarity the newer measures, extra work involved in implementing such definitions, and the difficulty in determining the appropriate weight that should be assigned to each dimension.

The relevant question for those researching globalization, is whether incorporating additional dimensions would change the conclusion significantly, and if so, in which direction? Critics of corporate globalization often point out that any economic growth afforded by neoliberal policies comes at a high price in terms of stability and of public goods, including natural resources, social capital, and government services. Critics therefore assume that reliance on monetary based poverty measures significantly overstates the success of neoliberal policies.

Proponents of neoliberal policies tend to counter such criticisms by pointing to the general correlation in the long run between income and measures of democracy, equality, education, and environmental health[24]. Thus, *ceteris paribus*, increases in monetary measures might be expected to be accompanied by improvements in other dimensions. In the following paragraphs I review the available evidence on the impacts of globalization on non-monetary dimensions of poverty, in an attempt to determine in

[23] See Rao (1998) for a genuine attempt to include additional dimensions in an analysis of the impacts of globalization.
[24] See for example the environmental Kuznets curve literature, and the large literature on inequality and growth.

which direction purely monetary assessments are biased.

Following the line taken by critics of BCD globalization, the most obvious impacts arise from cut-backs and privatization of public services previously provided by the government. Kanbur (2001, p.1087) provides an illustration of the limitations to using monetary-based measures of poverty in the context of neoliberal policy changes:

> *"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 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."*

Also note that reductions in government expenditure may not be a matter of choice once an economy has become integrated into the global economy. This globalization-induced fiscal restraint is one aspect of what Friedman (1999) has dubbed the Golden Straightjacket.

Globalization may also have negative implications for voice, empowerment and self-determination for poor people. This is particularly true of the political aspects of globalization that shift decision-making to higher and higher levels of government, well beyond the potential for democratic participation from the poor[25]. Friedman's Golden Straightjacket also limits the set of feasible policies available to national governments, eliminating many that are generally favored by the poor.

Many critics of BCD globalization would argue that globalization also dis-empowers the poor in their roles as providers of labor. The type of trade-off envisioned is illustrated by the example of multinational corporations setting up in a developing country. The large corporation may provide more unskilled employment, at wages better than the local industry. At the same time, however, they force

[25]Globalization may also exacerbate problems of capture in the presence of inequality. See Bardhan & Mookherjee (2000).

smaller, local firms out of business. Thus, current and future local entrepreneurs loose the possibility of being their own boss, and their potential employees loose the opportunity of working in a small company in which they may have more power. Instead, all these people become a very small and powerless part of very large, global corporations[26].

The final dimension of poverty that is likely to be influenced by globalization is vulnerability, and here again we find pause for concern. Theoretically, increased integration with the global economy is should help decrease macro-economic volatility. However, integrating may also increase the vulnerability of a national economy to negative external shocks, and the process of economic globalization[27] may amplify these shocks and transmit them more quickly[28]. The empirical evidence suggests that for some aspects of increased openness, particularly capital account liberalization, the net impact on stability is negative[29]. While others, such as trade in agricultural commodities, may have positive stabilizing effects in ways that are particularly important to the poor[30].

There is also evidence that globalization may have impacts on the variability of incomes of the poor beyond its impact on national averages. The first effect is simply that rapid transition from a closed economy to an integrated one will cause changes in the economy, and there will be winners and losers from these changes. As Ravallion (2003) says, 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."*

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[26]This argument is essentially one about the destructive effect that integration has had on the middle in some countries. See Graham, Birdsall & Pettinato (2000) for more on this problems facing the middle class.
[27]*Economic globalization* being the process in which many countries are becoming more *integrated*.
[28]Prasad et al., (2003); Rodrick (1997); Razin, Sadka & Coury (2002)
[29]Prasad et al. (2003);
[30]Dorosh (2001)

Though this 'churning under the surface' is undoubtedly one of the concerns that people have in regard to globalization and poverty, it may not be a lasting issue if the churning is only a one-off occurrence resulting from changing policy environment. However, it will be a lasting concern if the incomes of poor and middle-class people are made permanently less reliable by globalization[31]. An example of potentially lasting effects is the replacement of stable jobs for the government or in protected local industries by jobs for which there is little security. Though it is often claimed that increased openness to international trade leads to an expansion in the less secure informal sector, there has been little empirical evidence to date to support this[32].

Overall, there appear to be several important ways in which globalization is expected to affect non-monetary dimensions of poverty. The little empirical work undertaken to date in this area makes it difficult to say definitively whether the omission of the additional dimensions of poverty leads researchers to over or under-estimate the benefits of globalization for poverty alleviation. However, the anecdotal evidence seems to suggest that the omission leads to an over-estimate of the benefits. Further support for this conclusion comes from the opinions of the poor themselves. Graham (2001) reports that the perceptions of the poor, as well as the middle-class, of their welfare change from national integration and liberalization are systematically below what is suggested by their measured income change. In the forward to "Voices of the Poor"[33], Clare Short and James Wolfenson have this to say:

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

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[31] For example, Graham (2001, p.3) points out the considerably greater movement up and down income quintiles in Peru as compared to the United States. It is not clear, however, whether this is the result of a period of transition, or a lasting effect produced on the Peruvian economy by integration.

[32] See Goldberg & Pavnik (2003) for an empirical test based on data for Brazil and Columbia. See also Harrison (1997) for an analysis of the labor market impacts of trade reform in Morocco.

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

Inequality

Critics of corporate globalization tend to consider the level of inequality to be an important component of social welfare, independent of its impact on poverty. If there exists a trade-off between fairness and efficiency, they will lean much further towards fairness than most neoclassical economists. The difference between the two ways of thinking is illustrated most clearly by the sweatshop debate.

Consider the case of a multinational corporation opening a factory in a developing country. The multinational provides marginally better pay and conditions than similar local enterprises. For the very poor and unskilled in the local community, taking a job in the new factory represents an improvement over their previous standard of living. As a result of transferring to the new, cheaper location, the multinational makes cost savings ten times what they pay the workers. Half of this cost saving is passed on to consumers, primarily in rich countries. The rest is increased profit that may be partly shared with already their well paid, non-production, workers based in rich countries.

Economists consider this a glorious outcome, undoubtedly a Pareto improvement, but many other members of the community find it morally repugnant. They feel strongly that a greater share of the gains from globalization should accrue to the poor. Such sentiment is not driven simply by clever campaigns on behalf of anti-sweatshop campaigners. It is simply an example of the general principle that is at last being empirically established by the study of behavioral economics, that is, that “many people are strongly motivated by concerns for fairness and reciprocity”[34].

Having established why inequality might be so important to some people, we now consider what different groups mean by inequality. One of the differences between globalization's critics and its proponents is their respective emphasis on *absolute* verses *relative* inequality. The latter group, which

[34]Fehr & Schmidt (2000, p.1)

includes most economists, usually report statistics that summarize the income distribution in some way. Theses statistics, for example the Gini co-efficient, are all relative measures of inequality. They are very useful to economists because they allow the distributional effects of a policy change to be examined through a single number, and completely independently of growth effects.

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

> *"It may, for example, predispose the elites to be more corrupt as they compare themselves to elites in rich countries and squeeze their own populations in order to maintain a comparable standard of living. It may encourage the educated people of poor countries to migrate to rich countries, and encourage unskilled people to seek illegal entry[35]. It may generate conflict between states, and – because the market-exchange-rate income gap is so big – make it cheap for rich states to intervene to support one side or another in civil conflict."*

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

[35]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).

political instability and cultural alienation. [It] will foster political, ethnic, ideological and religious extremism, along with the violence that often accompanies it."

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

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

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

"We economists (and I put myself in that group) are missing the point. True, world poverty may be declining and global inequality no longer rising. But that does not mean that the global economy is fair or just. ...even

relatively benign outcomes *may belie fundamentally unequal* opportunities *in an unfair global game."*

While I agree with both Birdsall and Ravallion's claims, there is also a second reason that the popular perception of the impacts of globalization on inequality is so much more pessimistic than economic opinion. The statistics most often quoted in support of the negative impact of globalization on inequality, are in fact measures of *relative* inequality. However, unlike economist's measures, such as the Gini co-efficient, they do not pay a great deal of attention to the shape of the income distribution. Instead, they focus on the difference between the top and the bottom of the distribution, which indicates a particular concern with 'top-driven' inequality. Robert Wade, himself an economist from the London School of Economics, provides an excellent statement of this concern.

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

Statements such as this, which refer to changes in the relative incomes of the top and bottom deciles, are standard components of anti-BCD globalization arguments that originate in relatively rich countries. According to Carol Graham (2001), top-driven inequality may also be important to negative perceptions of globalization among the poor and middle class in poorer countries. Graham's argument is that by providing an ever-higher benchmark for comparison, top-driven inequality leads people to under-estimate their own income gains.

With this understanding of the concepts of inequality that prevail in the general public, the confidence with which critics of BCD globalization assert that it is causing increased inequality become much more understandable. It is true that people tend to gain from globalization in proportion to the amount of wealth they already had[36]. And it is true that the ratio of the incomes of the richest to the poorest is rising[37].

Though I do not think it is not a point major division in the globalization debate, it is worth noting that the observed trends in inequality also vary according to the geographical unit under consideration. In China and India for example, inequality between states is the major source of inequality in the country as a whole. Similarly, between-country inequality is the major source of global inequality, and economists often debate whether we should be more concerned with between-country or within-country inequality. The answer from the street, is that we should worry about both[38].

Questionable Causation

As noted by Bardhan (2003), both sides of the globalization debate have had a tendency to claim an unreasonable degree of causation between observed trends in poverty and inequality, and policies. The claims of causation are so confounded that both sides claim the success of the Asian tigers as the result of their own policies, and the failure of many of the African states as the result of the opposite policies. Thus pro-globalizers claim China and Taiwan's growth in recent decades as the result of liberalization of their economies. While globalization's critics claim that these same countries have been able to capitalize on the opportunities afforded by globalization because of extensive government intervention both now and in the past.

Similarly, pro-globalizers claim that much of Africa's economic problems are due to lack of openness

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

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

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

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.

Such contradictory claims are able to persist in large part because the theoretical impact of globalization on poverty is ambiguous[39], and the empirical research on globalization has been less conclusive than many economists in favor of globalization claim. As Round and Whalley (2002) conclude after a detailed examination of the South Asian experience with globalization:

> *"Countries generally seem to experience declines in absolute poverty over the period, with roughly constant relative poverty (i.e. inequality). Determining linkage effects is, however, difficult as the analyses show.......Grand generalizations as to poverty-globalization linkage do not seem to follow from these country episodes."*

The UNCTAD Trade and Development Report, 2002[40], and a major survey prepared for the U.K. Government[41] also reach the conclusion that causal links between commercial policies and performance cannot be justified. Winters (2000), one of the authors of the U.K. report, has this to say:

> *"If trade liberalization and poverty were both easily measured, and if there were many historical incidents in which liberalization could be identified as the main economic shock, it would be simple to derive simple empirical regularities linking the two. Unfortunately, none of these conditions is met, and so we are thrown back on fragmentary evidence on parts of the argument. The key to assembling this evidence into a coherent*

[39]Winters (2000); Agenor (2002)
[40]UNCTAD (2002, p.52)
[41]McKay,Winters & Kedir (2000)

picture as well as to designing polices to alleviate any ill effects, is to understand the channels through which such effects might operate."

The quote by Winters highlights two important points, that we cannot answer the simple questions relating globalization to poverty and inequality, and that they are the wrong questions anyway. Simplification of a complex issue into a binary good or evil outcome is a ubiquitous, and arguably necessary, component of modern public debate. However, it should not be the focus of academic research.

Academics are in the rare position of having the time and the knowledge to look deeply into complex issues. However, instead of taking advantage of this position and asking nuanced questions, many academic economists have tried to directly ask questions such as:

- Is Globalization Good for the Poor?;
- Is trade good for growth?; and
- Is growth good for the poor?

Even more baffling has been the apparent conclusion by this same group of economists that if increases in, say trade, have been associated with growth, then the optimal policy stance for *any* government is *zero* trade restrictions. Could there not be interior optima that are below the level of protection that many countries previously had, but above zero?[42]

The primary tool for asking empirical questions of this nature is the cross-country regression. While

[42] A similar approach has been taken by some economists in regard to growth as a poverty reduction strategy. The approach has been to prove that growth is good for the poor, and therefore to conclude that whatever strategy maximizes growth will be the optimal poverty fighting policy. However, leading development economists such as Ravi Kanbur (2001) and Martin Ravallion (2003) point out the proving that growth is good for the poor is beside the point. The question of the optimal policy mix for poverty reduction still remains.

these studies are useful for summarizing the relationships between relevant variables, they suffer serious methodological difficulties that make them inappropriate bases for policy recommendations. 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 oversimplifications required to use a standard regression framework. These limitations have led several leading economists to discount or even disregard the evidence provided by cross-country studies[43].

Part of the reason why so much effort has been put into these the big picture questions, despite the obvious limitations of such an approach, is precisely because they do not allow for nuance. Thereby, they are better means of promoting an agenda of liberalization, to which many western trained economists are firmly committed. As Kanbur (2001, p.1092) says, the attitude of many economists to discussing optimal trade policy has been “give them an ounce of nuance, and they'll take a mile of protection.”

I would argue that if economists continue to focus their research agenda on questions that support their own position, they may jeopardize their ability to influence policy both now and in the future. One of the major complaints against globalization is that it is a process being pushed by the elites for the elites, and that the opinions of ordinary citizens are not being considered. By not making a genuine attempt to understand and test the validity of the concerns raised by globalization's critics, economists are validating this primary charge, and risking a backlash.

Research Achievements and Remaining Questions

The above critique was intended to highlight the need to move beyond big picture questions to explore

[43]Bhagwait (2000); Bhagwait & Srinivasan (2002); Bardhan (2003)

specific linkages between globalization, poverty and inequality. However, this is not to say that the research to date has not made a significant contribution. In this section I briefly discuss the types of empirical research that have been applied, and summarize the points of consensus that have emerged. I do not attempt to provide a through review of the literature, as several high quality survey papers, reports and opinion pieces have already been devoted to these questions[44].

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

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

It is interesting to note that Reimer does not include a category for micro-economic studies that test specific mechanisms (other than prices) through which globalization is believed to impact on the poor. This supports my earlier contention that insufficient attention has been paid to this area. Some good examples of this type of work have, however, emerged recently, including Edmonds, E. & Pavcnik, N.

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

(2002) and Goldberg, P. & Pavcnik, N. (2003). In the former work, the authors examine the impact of Vietnam's opening up to rice trade on child labor in that country. The latter work looks at the response of the informal sector in to trade liberalization in Columbia and Brazil.

The above types of empirical research have made a significant contribution to the debate over globalization, and have provided several points of relative consensus. Below I summarize what from my reading of the literature (both empirical and other) have emerged as the 'stylized facts' of globalization and poverty.

1.Trade is correlated with, and often a source of growth.

2.Growth is on average good for the poor.

3.U.S. and E.U. should liberalize their trade, particularly in agriculture and textiles.

4.FDI 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 loose as a result of liberalization.

7.TRIPS should be modified. (Bardhan, Deardorff, Wright)

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.

Thus, though the literature has been unable to answer convincingly the question of whether globalization is good for the poor, it has been able to answer a decent set of arguably more relevant questions. It is also reassuring to observe that these findings have supported the furtive emergence of a middle ground in the debate over globalization.

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

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

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

Positive as these movements are, there remain major points of disagreement. I summarize the key outstanding issues with regard to the effects of globalization on poverty and inequality in Appendix 1. in the final section of this paper I concentrate on what Kanbur (2001, p.1089) describes as "undoubtedly the most potent difference in framework and perspective": market structure and power. When this is extended to include political power, it is what critics call 'corporate globalization'.

Corporate Globalization

In this section I focus on concerns about the impact of 'corporate globalization' on the poor in developing countries. The role of big business is the most widely held concern of the general public with regard to globalization. The best selling 'anti-globalization' book, well known as the bible of the movement, is titled "When Corporations Rule the World"[45]. I also believe that globalization and increasing size of firms are inseparably linked phenomena, and that increasingly large firms does have significant implications for the operation of political institutions and markets. Thus I believe that, one way or another, critics of corporate globalization are highlighting an important issue worthy of further attention from academics and policy makers.

When critics refer to 'corporate globalization', they are referring to the influence that large corporations have on writing the rules of the global economy, as well as to the perception that large, multinational or transnational corporations[46], are the biggest beneficiaries of globalization. The link between corporate globalization and worsening poverty in the minds of many critics is illustrated by the following quote from the WTO overview on the website of Global Trade Watch[47].

> *"Established in 1995, the World Trade Organization (WTO) is a powerful new global commerce agency, which transformed the General Agreement on Tariffs and Trade (GATT) into an enforceable global*

[45]Korten (1996); Naomi Klein's "No Logo" also focuses on global corporate dominance.
[46]Hereafter I refer to 'transnational corporations' when I mean both transnational and multinational corporations.
[47] (http://www.citizen.org/trade/wto/index.cfm)

commerce code. The WTO is one of the main mechanisms of ***corporate globalization****.*

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

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

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

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

In my view there are three primary sources of the sort of sentiment expressed by Global Trade Watch. The first is evidence based. The reality is that transnational corporations have been the biggest beneficiaries of globalization[48]. It is also true that many local economies, many groups of workers, farmers, and indigenous peoples have suffered as a result of globalization. While some members of

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

these groups may find new and better sources of income as a result of globalization, millions do not[49]. Sentiments against globalization are based in no small part on the knowledge that real people are loosing their traditions, their livelihoods, and indeed their lives in the process.

The second basis for believing that what is good for corporations is bad for the poor is the connection between consumption and environmental quality or natural resources. The inclusion of the environment as one of the losers in the above statement from Global Trade Watch is not co-incidental. If you believe that all human consumption comes at an environmental or natural resource cost, and that the global environment is approaching some critical level of degradation, then increased consumption by the rich *necessarily* implies decreased consumption by the poor. The 'poor' here may be a part of either part current or future generations[50].

The following quote from a recent article in PBS's Online NewsHour[51] illustrates this sentiment. When asked if he resented foreigners that had come to the Philippines and made their fortune, Rolando Katigbak, a Philippino ex-patriot, had this to say:

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

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

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

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

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

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

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

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

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

The third basis for concern over the gains to big business from globalization is their increasing power. The larger and richer corporations get, the more political and market power they hold. Concern over corporate power and its links with globalization is often voiced in terms much like the following quote from John McMurtry (2002, p.202) in his article *"Why the Protesters are Against Corporate Globalization"*.

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

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

Statements such as these are more notable for their dramatic effect than for their sense of balance, but the general problem to which they allude is real enough. Widespread concern over the political power of big business exists even in countries such as the United States, that have wealthy and educated populaces, and strong democratic institutions[52]. To believe that these same businesses are not capable of wielding political power in countries that do not have these endowments is difficult. The influence of business in international politics, most notably at the WTO is also well documented. The most often criticized result of this influence is the Trade Related Intellectual Property Rights (TRIPS) agreement[53]. There is little doubt that the primary outcome of this agreement is to increase the profits of large corporations at the expense of poor governments and consumers.

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

[52]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.

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

increased competition and accountability provided by openness[54]. In light of the theoretical ambiguity, Bardhan (2003) suggests that the effect of globalization on the political equilibrium in a country will vary on a case by case basis.

The second problem for nation states is the reduced policy space open to them in a more integrated world economy. The restriction that integration places on the economic policies of national governments has been noted by several economists, happily so by proponents of free markets such as Milton Friedman (1999). Dani Rodrick in particular has paid a lot of attention to this issue[55]. In his paper "Feasible Globalizations", Rodrick (2002) argues strongly that democratic politics, the nation state and full global economic integration are mutually incompatible. Only two can co-exist and we need to make a conscious decision about which pair we choose.

Concerns over the *market* power held by transnational corporations are also worthy of serious consideration by globalization's proponents. While economists have focused on the potential of globalization to reduce the market power held by local firms, many critics see globalization as a mechanism by which the oligopolistic reach of the big corporations is spread to the furthest corners of the globe. Bardhan (2003), Kanbur (2001) and Bhagwati (2002) have all noted that one of the fundamental differences between globalization's proponents and critics is that the former consider the impacts of market liberalization within a framework of perfect competition, while the latter consider it in the context of highly imperfect competition. Within a framework of imperfect competition, distortions in both factor and goods markets are feasible[56]. Hence the poor are seen as being exploited

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

[55] Rodrick (1997); Rodrick (2002)

[56] 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

both in their role as suppliers of labor or raw produce, and in their role as consumers of finished products.

It seems obvious that globalization, defined in its broadest sense, favors large and transnational corporations[57]. It is also true that business executives have been attempting to attain market power under the belief that this is necessary in a globalized economy, and that some major markets are highly concentrated[58]. Among economists, monopolistic competition is increasingly being accepted as a model for describing the world economy[59]. However, the empirical evidence for the perceived links between the globalization of an industry and the concentration of that industry are weak[60]. And even if large corporations hold significant market power, there are several further facts that need to be established before it can be claimed that this leads to a bad outcome for the poor. For example:

1.Does power in world markets translate into power in national markets?

2.How much are these firms exploiting the market power that they hold? and

3.Are these rents simply the price we must all pay for the greater efficiency of the larger firms?

Bardhan (2003) also suggests that this is a question in need of empirical investigation. However he argues that even if the issue is validated empirically, protesters should be lobbying for anti-trust laws, not less more trade restrictions.

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exercising over labor.

[57] In its broad definition, globalization entails a deduction in market restrictions that corporations face, as well as decreasing transport and communication costs. Marketing costs are a growing proportion of total costs in many industries, and these have very large scale efficiencies. Thus we can expect globalization to increase the minimum efficient size of firms.

[58] Ghemawat & Ghadar (2000)

[59] Elliot, Kar & Richardson (2003)

[60] Ghemawat & Ghadar (2000)

Conclusion

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

This paper has attempted to identify the sources of some of the criticisms of globalization as it is currently unfolding. In order to make the task manageable, and the discussion more meaningful to economists, I have concentrated on the more moderate criticisms. Indeed the criticisms I have presented all point to the need to improve and moderate globalization, but in no way suggest that nations should all revert to some archaic form of economic isolation. These criticisms are largely objections to the capture of globalization's benefits almost entirely by those that are already wealthy, in particular they are objections to 'corporate globalization'.

The discussion in relation to poverty highlighted that pessimistic perceptions of poverty trends in recent decades have several roots. One is that many people consider the total number of people living in poverty a more appropriate measure than the incidence of poverty. There is also a belief that any change that further impoverishes the already poor, or sends middle class into poverty, is not welfare improving, even when the total number of people living in poverty decreases as a result of this change. This position translates into a strong desire for globalization to proceed only where adequate safety nets are available. The final reason for pessimistic perceptions of poverty trends is a perception that globalization and economic liberalization have non-monetary impacts on the lives of the poor. In order to address this concern economists need to make more of an effort to utilize multi-dimensional measures of poverty.

Inequality is also a major issue of concern, independent of its relationship to poverty. Here again we find that the definition most often employed by economists is at odds with the popular conception of what is important. Economists generally rely on measures of the relative inequality, that is, the proportion of total income held by difference groups, while many people implicitly think of inequality in absolute terms. Top-driven inequality is also responsible for a large amount of dissatisfaction, suggesting economists will communicate more effectively if they report the ratio of the incomes of the top and bottom deciles, along with traditional measures such as Gini co-efficients. In light of the very large and unambiguously growing level of absolute inequality, academic debates over the different trends in inter verses intra-country *relative* inequality appear less relevant to addressing concerns about globalization.

Having established the basis for differing opinions on the trends in poverty and inequality, the causal link between these trends and globalization was considered. My conclusion was that the evidence of causality is not as strong as either side has contended, and that it is neither possible nor appropriate to make broad generalizations in this regard. I argued that if academics are genuinely concerned about the lack of public support for globalization, they should target more research at the specific issues and linkages that are the source of the concerns.

The subsequent section I summarized what I believe to be the major achievements of globalization research to date. The result of this is a list of points of relative consensus that I suggest may be taken as a starting point for further research. Further cross-country regressions indicating the correlation between trade and growth, or growth and poverty reduction, are unlikely to progress the debate significantly.

The final section of the paper expands on the topic of 'corporate globalization'. Corporate globalization is used by critics to describe a situation in which the process of globalization proceeds according to rules set by corporations, and ultimately the benefits of globalization accrue to those corporations. Fears about globalization were seen to be based on the belief that large corporations have both political and economic power, and that they would use this power to the the detriment of poor and marginalized groups. I argued that large corporations do have power, and that globalization makes them larger and more powerful. However this does not mean that they necessarily exploit that power, and even if they do exploit it to some extend, it is not clear that this loss is greater than the gain provided by their more efficient size. It would seem that this is an area that warrants much more attention than it has previously received from researchers.

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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. (Kanbur02)
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 sends 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 enforcible super-national trade 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.