

Globalization Reduces Poverty in Developing Nations

 *Globalization*, 2006

"Those poor nations [that] join the globalization revolution are the very ones now prospering."

Poverty is decreasing in developing nations that have embraced the most recent wave of globalization, argues Jim Peron in the following viewpoint. Peron maintains that in the 1980s developing nations that eliminated trade barriers began to benefit from globalization. Studies of globalization's impact during this period show a reduction in global income inequality and an increase in living standards, he contends. Peron is executive director of the Institute for Liberal Values, a think tank that opposes big government.

As you read, consider the following questions:

1. According to Peron, why must studies of wealth inequality look at more than income alone?
2. What is the result of having studies that use different standards of "absolute poverty," in the author's view?
3. In the author's opinion, what could be hidden by a substantial increase in world population?

World inequality is increasing. That's one of the major claims of Greens, Reds¹ and assorted anti-globalization "activists." Take Grassroots International as just one example. They have claimed: "Inequality, by any definition, has increased."

Not only that but: "The rich have become much richer as the ranks of the very poor have swelled dramatically and their living conditions have deteriorated."

Well that's a challenge if I ever saw one. More importantly it's a blatant falsehood. But if one is going to trash globalization the best way to do this is by manufacturing phony claims like this one.

Examining the Claims

First we should look at the idea that "inequality, by any definition, has increased." Xavier Sala-i-Martin is one of the most cited economists in the world today. And his investigation of "The Disturbing 'Rise' of Global Income Inequality" shows that inequality has lessened not increased.

Professor Sala-i-Martin used seven major indexes which measure inequality. Applying them across the globe for the period 1980 to 1998—which is when the last wave of globalization took place—he finds that: "All indexes show a reduction in global income inequality between 1980 and 1998." By all seven methods inequality was reduced. Yet the anti-globalizers say that by "any definition" it has increased. Obviously they were wrong.

But what about the claim that, "the very poor have swelled dramatically and their living conditions have deteriorated"? That too is a falsehood. The good Professor notes that "There are between 300 and 500 million less poor people in 1998 than there were in the 70s."

Prof. Sala-i-Martin is not alone. The United Nations Development Programme decided to see what the trend was in wealth inequality as well. But you can't simply look at income since \$1 in Lusaka buys a lot more goods than \$1 does in London. So they compared the purchasing power of the richest 20% of the world population to the 20% of the population with the least money. They covered the period from 1970 to 1998 and found "the ratio fell, from 15 to 1 to 13 to 1." In other words world income had become more equal.

They also found that instead of worsening, living conditions for the world's poor have improved substantially. "Many more people can enjoy a decent standard of living, with average incomes in developing countries having almost doubled in real terms between 1975 and 1998 ..."

Inflating the Numbers

A standard for "absolute poverty" was established at \$1 per day (using 1985 dollars) by the World Bank. Professor Sala-i-Martin was a bit perplexed to find that official poverty organizations have been adjusting the number. "For some reason, another poverty line mysteriously appeared in the literature that doubled the original figure to two dollars per day. The United Nations sometimes uses four dollars per day."

This leads to an artificial inflation of the numbers of people in absolute poverty. "Of course, if one is allowed to raise the poverty line arbitrarily, then one is bound to find all persons in the world are poor." Using the \$1 per day and \$2 per day numbers Sala-i-Martin still found a decrease in the number of those suffering absolute poverty. "The \$1/day poverty rate has fallen from 20% to 5% over the last twenty five years. The \$2/day rate has fallen from 44% to 18%."

This good news could be misleading since a smaller percentage of poor people in a larger population can still translate into more poor people in total. And since the world population has increased substantially a percentage decline in poverty could well hide a rise in the total number of poor. But in this case the good news remains true. "We see that, using the one-dollar-a-day definition, the overall number of poor declined by over 400 million people: from close to 700 million citizens in the peak year of 1974, to less than 300 million in 1998. Using the two-dollar definition the number of poor declined by about 500 million: from 1.48 billion to 980 million in 1998."

The Benefits of Participating in Global Trade

Now let's go back to the anti-globalization crusaders we discussed in the first paragraph. They are claiming that poverty and inequality have increased as a result of globalization. Yet it is precisely during the period of greatest globalization that poverty and inequality have diminished.

Previous waves of globalization didn't help the poor of the world in general. In fact poverty and inequality continued to increase until the most recent globalization wave. What changed? From the late 1800s to World War I free trade and globalization was restricted to mainly Western nations. They saw increased prosperity but the poor nations weren't part of that trade. After the War trade protectionism ruled and poverty and inequality, as to be expected, increased. Trade nationalism made world wealth even less equal.

Only in the recent wave of globalization have the poor nations of the world participated. Beginning around 1980 many Third World nations started lowering tariffs and deregulating. Today we have two Third Worlds. The first joined the globalization revolution and are seeing growth rates averaging 5%

per annum. This means they are rapidly catching up with the wealthy nations of the world which are growing at only 2% per year. And those Third World nations that are practicing economic nationalism are uniformly regressing.

The anti-globalizers have everything almost perfectly backwards. World-wide poverty is decreasing not increasing. Inequality is waning not rising. And those poor nations which join the globalization revolution are the very ones now prospering. Those who listen to the anti-globalizers are wallowing in poverty and misery with little hope of getting out.

Footnotes

1. The term Greens often refers to members of the Green Party, which supports policies that protect the environment and human rights. Reds are those who oppose capitalism and support Communist economic policies.

Peron, Jim. "Globalization Reduces Poverty in Developing Nations." *Globalization*. Ed. Louise I. Gerdes. San Diego: Greenhaven Press, 2006. *Opposing Viewpoints*. Rpt. from "World Inequality and Globalization." *Scoop* (18 Aug. 2002). *Gale Opposing Viewpoints In Context*. Web. 18 Apr. 2012.

Globalization Is Making World Poverty Worse

 Poverty , 2004

In the following viewpoint, Antonia Jubasz argues that globalization increases poverty and inequality because it encourages free trade, financial liberalization, deregulation, reduced government spending, and privatization—policies that concentrate wealth at the top and marginalize the poor. Further, she maintains that the economic and human costs of adjusting to increased market openness are borne almost exclusively by the poor, whether the adjustment is rapid or slow. Jubasz contends that due to globalism, poverty in developing countries has increased, not decreased, in the past decade. Antonia Jubasz is the project director of the International Forum on Globalization.

As you read, consider these questions:

1. According to Jubasz, how does President George W. Bush want to end terrorism?
2. In Jubasz's opinion, why is the U.S. government offering loans to Pakistan and Indonesia rather than direct aid?
3. Which segment of the U.S. population experienced large wealth gains since 1983, as reported by the author?

United States Trade Representative Robert Zoellick has begun to use the horrific tragedies of September 11, 2001 as a rationale to push an aggressive free trade agenda, arguing that we must "counter terrorism with trade." An expansive economic globalization agenda is one of the four policy priorities President George W. Bush asked Congress to address immediately following the attacks of September 11. The administration is arguing that we will end terrorism through trade because

economic globalization is the solution to poverty. But all evidence shows the contrary, that economic globalization is a cause of global poverty and inequality, not a solution. Furthermore, this evidence is increasingly coming from within the institutions of economic globalization itself. For example, the Central Intelligence Agency itself warned in a December 2000 report that economic globalization would increase inequality and poverty, thereby fostering violence: "The rising tide of the global economy will create many economic winners, but it will not lift all boats.... [It will] spawn conflicts at home and abroad, ensuring an even wider gap between regional winners and losers than exists today.... [Globalization's] evolution will be rocky, marked by chronic financial volatility and a widening economic divide. Regions, countries, and groups feeling left behind will face deepening economic stagnation, political instability, and cultural alienation. They will foster political, ethnic, ideological, and religious extremism, along with the violence that often accompanies it." The most reliable data available, predominantly from supporters of economic globalization, demonstrate how economic globalization has caused the most dramatic increase in global inequality and poverty in modern history. Furthermore, this outcome is intrinsic to the economic globalization model. Arguments that economic globalization allows "fragile democracies" to "overcome poverty and create opportunity," as Trade Representative Zoellick wrote in the *Washington Post*, are seriously mistaken. If such policies are pursued, the world could find itself in even worse circumstances in the future than those we find ourselves in today.

The IMF Has Failed Miserably

The administration has already begun to move ahead with International Monetary Fund (IMF) loans to Pakistan and Indonesia in the name of fighting terrorism. If we wish to help these countries with their economic problems, why are we providing loans instead of direct aid? Why are we using the IMF, an institution that has failed miserably in this region (as former World Bank chief economist Joseph Stiglitz wrote, "All the IMF did was make East Asia's recessions deeper, longer, and harder.") instead of alternative funding sources, such as the United Nations, that historically represent the interests of developing countries? The answer may be that the U.S. government can control the funds that go to a country through the IMF by linking conditions to the loans. These conditions have historically benefited corporate and elite interests over those of the populations of the countries in question.

The CIA is not alone in its assessment of the catastrophic impact that the policies of economic globalization have had around the world. For example, the World Bank—one of economic globalization's leading institutions—reports that "Globalization appears to increase poverty and inequality. ... The costs of adjusting to greater openness are borne exclusively by the poor, regardless of how long the adjustment takes."

The United Nations echoes these words in its 1999 *Human Development Report*, "The new rules of globalization—and the players writing them—focus on integrating global markets, neglecting the needs of people that markets cannot meet. The process is concentrating power and marginalizing the poor, both countries and people.... The current [globalization] debate is ... too narrow ... neglecting broader human concerns such as persistent global poverty, growing inequality between and within countries, exclusion of poor people and countries and persistent human rights abuses."

Globalization Concentrates Wealth at the Top

The policies of economic globalization such as free trade, financial liberalization, deregulation, reduced government spending, and privatization concentrate wealth at the top, removing from governments and communities the very tools needed to ensure equity and to protect workers, social services, the environment, and sustainable livelihoods. In this way, economic globalization and its institutions—including the International Monetary Fund (IMF), the World Bank, the World Trade Organization, and the North American Free Trade Agreement, have created the most dramatic increase in global inequality—both within and between nations—in modern history and have increased global poverty.

For example, the income gap between the fifth of the world's people living in the richest countries and the fifth in the poorest doubled from 1960 to 1990, from thirty to one to sixty to one. By 1998 it had jumped again, with the gap widening to an astonishing seventy-eight to one. Poverty trends have worsened as well; there are 100 million more poor people in developing countries today than a decade ago. The assets of the three richest people on earth are greater than the combined Gross National Product of the forty-eight least developed countries. Even in the United States, where median earnings of workers more than doubled from 1947 to 1973, the past two decades have seen median earnings fall by almost 15 percent, with the earnings for the poorest 20 percent of households falling the furthest behind. In fact, the only segment of the U.S. population that has experienced large wealth gains since 1983 is the richest 20 percent of households. The net worth of the top 1 percent of U.S. households now exceeds that of the bottom 90 percent.

As Professor Robert Wade of the London School of Economics wrote in *The Economist*, "Global inequality is worsening rapidly.... Technological change and financial liberalization result in a disproportionately fast increase in the number of households 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. The richest 10 percent pulled away from the median, while the poorest 10 percent fell away from the median, falling absolutely and by a large amount."

Globalization Serves Only the Rich

It is time to recognize that economic globalization does not serve the poor, it serves the wealthy. It actually adds to the numbers of poor while concentrating greater amounts of wealth among an ever-dwindling number of people. As Thabo Mbeki, the president of South Africa, said, "We believe consciousness is rising, including in the North, about the inequality and insecurity globalization has brought about the plight of poor countries."

For the U.S. Trade Representative to argue that expanding the World Trade Organization, signing the Free Trade Area of the Americas, and granting the President "Trade Promotion Authority" (formally Fast Track) to side-step Congress in the creation of national legislation will address the root problems of global instability is opportunistic, disrespectful, and cynical. It is time to reject failed models and embrace new alternatives.

Jubasz, Antonia. "Globalization Is Making World Poverty Worse." *Poverty*. Ed. Karen Balkin. San Diego: Greenhaven Press, 2004. Opposing Viewpoints. Rpt. from "The Globalization of Poverty." *Tikkun* 16 (2001): 20. *Gale Opposing Viewpoints In Context*. Web. 18 Apr. 2012.