Approaches to Globalization and Inequality Within the International System

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Overarching Concerns
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Acronyms

BWIs	Bretton Woods institutions
ECA	Economic Commission for Africa
ECLAC	Economic Commission for Latin America and the Caribbean
FDI	foreign direct investment
G7	Group of Seven
G8	Group of Eight
GDP	gross domestic product
GNP	gross national product
HDI	Human Development Index
IDB	Inter-American Development Bank
ILO	International Labour Organization
IMF	International Monetary Fund
NAFTA	North American Free Trade Agreement
NEPAD	New Partnership for African Development
OECD	Organisation for Economic Co-operation and Development
RDB	regional development bank
UNCTAD	United Nations Conference on Trade and Development
UNDESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UNU	United Nations University
WDR	World Development Report
WIDER	World Institute for Development Economics Research
WTO	World Trade Organization

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Summary/Résumé/Resumen

Summary

There is increasing evidence that inequality within countries has been growing for the last few decades. Increasing income disparities, in addition to contributing to social and political tensions, mean that higher economic growth rates are necessary to reduce poverty. There is also growing evidence that lower inequality leads to better growth performance. While there is considerable international debate about the causes of increasing domestic inequality, many agencies of the United Nations have recently pointed to globalization and liberalization policies as significant contributors.

There is sufficient international consensus on these matters to support policies that would reduce inequality through building the assets of the poor (education, access to land and credit), through reversing discrimination against the poor and biases against agriculture and rural development, and through a more cautious approach to financial and capital-account liberalization. Other policies would also help to reduce inequality, including income and asset redistribution toward the poor, as well as more equitable labour market policies, and policies to foster skills and technological development. However, such prescriptions as yet carry less consensus.

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Résumé

Il semble de plus en plus avéré que l'inégalité à l'intérieur des pays s'est creusée au cours des dernières décennies. Non seulement les disparités croissantes de revenus contribuent aux tensions sociales et politiques mais il faut aussi des taux de croissance économique plus élevés pour faire reculer la pauvreté. Il semble avéré aussi qu'une réduction des inégalités entraîne une meilleure tenue de la croissance. Si les raisons pour lesquelles les inégalités se creusent à l'intérieur des pays sont âprement débattues au niveau international, de nombreuses institutions des Nations Unies ont récemment dénoncé la mondialisation et les politiques de libéralisation comme des facteurs y contribuant.

Ces questions font l'objet d'un consensus international suffisant pour plaider en faveur de politiques qui réduiraient les inégalités en renforçant les actifs des pauvres (éducation, accès à la terre et au crédit), qui mettraient fin à la discrimination envers eux et au parti pris à l'encontre de l'agriculture et du développement rural, et qui aborderaient de manière plus prudente la libéralisation financière et celle du compte de capital. D'autres politiques contribueraient également à réduire les inégalités: redistribution des revenus et des biens en faveur des pauvres, politiques plus équitables sur le marché du travail et mesures destinées à encourager l'acquisition de qualifications et le développement technologique. Mais ces politiques ne sont pas encore aussi consensuelles.

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Resumen

Cada vez hay más evidencia de que la desigualdad dentro de los países se ha incrementado en los últimos decenios. Las crecientes disparidades en materia de ingresos no sólo contribuyen a las tensiones políticas y sociales, sino que también ponen de relieve la necesidad de tasas de crecimiento económico más elevadas para reducir la pobreza. Asimismo, cada vez hay más motivos fundados para suponer que una menor desigualdad propicia el crecimiento. Si bien las causas de la creciente desigualdad dentro de los países son objeto de considerable debate en el plano internacional, muchos organismos de las Naciones Unidas han señalado recientemente

que la mundialización y las políticas de liberalización contribuyen considerablemente al respecto.

El consenso internacional sobre estos temas es suficiente para apoyar políticas que reducirían la desigualdad al incrementar los activos de los pobres (la educación, el acceso a la tierra y el crédito), al erradicar la discriminación contra los pobres y los prejuicios contra el desarrollo la agricultura y el desarrollo rural, y al adoptar un enfoque más prudente de la liberalización financiera y de la cuenta de capital. Otras políticas también contribuirían a reducir la desigualdad, incluida la redistribución de los ingresos y el activo en beneficio de los pobres, así como políticas del mercado de trabajo más equitativas, y políticas que fomentaran las competencias y el desarrollo tecnológico. Sin embargo, se ha alcanzado un menor consenso en lo que respecta a estas fórmulas.

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1. Introduction

Accelerating globalization and rising inequality were two strong tendencies emerging from the 1990s. This paper examines the relationship between these trends—in particular, the possibility that globalization is causing the rise in inequality. The paper surveys the rapidly growing literature and attempts to distinguish areas of consensus and issues on which there is disagreement. It also compares and contrasts the approaches to these issues in various international organizations.

The following section sets the stage by recounting the policy debates during the 1990s as trade and capital account liberalization moved to the forefront of the global agenda. The paper then turns in section 3 to the accumulating evidence on rising inequality around the world, and the policy debate it has spawned, before considering—in section 4—the theoretical framework in which inequality trends have been addressed, with particular attention to recent theories that represent a sharp break with the past.

Section 5 offers a simple model in which various transmission mechanisms associated with globalization—trade, capital flows, migration, technology transfer—can be associated with increasing or decreasing inequality in developed and developing countries. This model builds on the Heckscher-Ohlin hypothesis, according to which trade tends to equalize factor prices in trading countries; the section ends with some criticisms of the model. Following that, in section 6, the paper examines the impact of economic liberalization policies on inequality.

Section 7 then identifies points of agreement and disagreement, and section 8 surveys the differences of approach to these issues among the major international organizations. Next, in section 9, some policy implications are drawn, before concluding in section 10 with some final observations.

2. The Return of the Poverty Focus in an Era of Globalization

The World Bank's *World Development Report 1990* (WDR90) marked a turning point in the international discussion of poverty (World Bank 1991). Having launched its "poverty focus" campaign in 1973, and then having abandoned it subsequently in the 1980s—years of debt crisis, structural adjustment and the Washington consensus—the World Bank again announced that poverty reduction is its overarching objective. Other agencies, notably the principal multilateral development banks and bilateral aid agencies, soon followed suit.

Following WDR90, much of the debate during the early 1990s swirled around the World Bank's policy prescriptions: poverty reduction requires, first and foremost, sound growth-oriented economic policies, such as non-inflationary fiscal and monetary policies, a foreign exchange regime that does not lead to chronic overvaluation, lower barriers to trade, a considerable degree of deregulation and privatization, as well as getting the prices right domestically. There was much continuity here with the Washington consensus prescriptions of the 1980s. Second, however, the strategy called for social investments in health and education that would give the poor greater access to opportunities in a growing economy, and, as an afterthought, social safety nets for those among the poor who lost income or employment through economic reforms and/or could not take advantage of new opportunities. Together, these three prongs constituted the World Bank's strategy of "pro-poor growth".

By mid-decade the debate had shifted ground, thanks to multilateral and regional—principally the North American Free Trade Agreement (NAFTA)—trade negotiations, the emergence of the World Trade Organization (WTO) at the end of the Uruguay Round, and discussions at the International Monetary Fund (IMF) on capital account liberalization. These discussions became the main vehicles for the debate on globalization. Moreover, the "sound, growth-oriented policies" endorsed by WDR90 absorbed the globalization policy agenda, by emphasizing the development potential of greater openness to trade and foreign investment.

A significant part of this new agenda, namely advocacy of greater openness in the capital account, was set back by the severity of the Asian and other financial crises of 1997–1999. Restrictions on short-term capital inflows—such as the Chilean reserve requirement or *encaje*—and, in some quarters, even temporary controls on capital outflows—such as those imposed by Malaysia in September 1997—became acceptable as prudential, stability-enhancing measures. Capital account liberalization was not entirely abandoned; rather, it became part of the longer-term globalization agenda. Consequently, "openness" has come to mean trade liberalization plus promotion of longer-term foreign investment, particularly foreign direct investment (FDI). Along with sound domestic economic policies, developing countries were now being told that openness, in this sense, is central to poverty-reducing growth.

By the end of the 1990s, the World Bank was also emphasizing governance and institutions; accordingly, its decennial report on poverty, *World Development Report 2000/2001: Attacking Poverty* (WDR2000/2001), restated its three-pronged strategy as "promoting opportunity, facilitating empowerment and enhancing security" (World Bank 2001:6). This report assigned a greater role to the state than did its predecessor, WDR90, acknowledging—as did the earlier *World Development Report 1997: The State in a Changing World* (WDR97)—that market forces by themselves cannot ensure efficient outcomes, let alone equitable ones. A proper institutional framework—read as a well-functioning, incorrupt state—is necessary both to guide market actors and intervene on behalf of the poor.

3. The Re-Emergence of Inequality

Meanwhile, alongside the rehabilitation of poverty reduction as the overarching goal of development activity, another debate started to gain momentum in the 1990s, this one prompted by increasing income disparities, at the global level, and within industrial countries as well as in many developing countries.[1] At the global level, the consensus is that the trend ever since 1820 has been one of divergence, with increasing disparity between the world's richest and poorest households, at least up until the Second World War (Pritchett 1997; and several editions of the United Nations Development Programme/UNDP's *Human Development Report*). Some, however, argue that because of China's extraordinarily rapid growth since 1980, global divergence not only slowed down, but also may have reversed in the last decade (O'Rourke 2002). Berry (2002) goes even further to assert that, after increasing for more than a century, global inequality has not changed very much since around 1950.

At the same time, intracountry inequality has tended to increase, particularly since the 1970s, in both the developed North and the developing South. For this reason, the focus of this paper is