

Asymmetric Globalization: Outcomes versus Opportunities

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Executive Summary

The globalization debate presents two sharply divergent views of the effect of globalization on poverty and income inequality. Mainstream economists argue that globalization has not been the culprit in any increase in inequality and poverty. Others, on the streets and in the media, see globalization as good for the rich but distinctly bad for the poor. In this essay, based on a speech given at Yale University's Center for International and Area Studies, I argue that the mainstream view misses the point. True: world poverty is declining and global inequality is no longer rising. But these relatively benign *outcomes* belie unequal *opportunities* in a global economy that in many respects remains fundamentally unfair.

After a discussion of the facts behind the mainstream economists' assertion of a good outcome (globalization is not increasing poverty and inequality) I address the underlying issue of opportunities: why and how the rules of the new global economy are stacked against the developing countries and particularly the poor in those countries. Globalization has been asymmetric, creating a daunting challenge for global collective action. Global justice requires international mechanisms akin to a global social contract; rules and regimes in trade, property rights and migration that do not penalize developing countries, and global institutions that are representative and accountable to the poor as well as the rich.

* This working paper was adapted from a keynote presentation given at the Tercentennial Symposium, Yale Center for International and Area Studies, on September 13, 2001. These remarks were prepared before the terrible events of September 11, 2001. Those events are another reminder of the need for collective action at the global level, to manage the risks as well as exploit the potential benefits of global integration. A bibliographic note is included at the end of the text.

Introduction

Is globalization exacerbating world poverty and inequality? This question is at the heart of the furious debate about the merits and demerits of globalization itself. Among economists and students of development in the world's poorer countries, most would answer no – globalization has not been a culprit in any increase in inequality and poverty. It is, after all, the people least touched by globalization, living in rural Africa and South Asia, who are the poorest in the world. At the same time, in the streets, in the media, and among most of my sensible, well-educated (even Yale-educated!) friends, the answer seems self-evident: globalization is good for the rich but bad news for the poor.

About two weeks from now the IMF and the World Bank will hold their annual meetings in Washington, D.C.¹ The World Bank has defined its basic mission as reducing world poverty. But along with the IMF it is seen as a handmaiden of global corporate and financial interests and a powerful purveyor of the economic policies that are hurrying along and intensifying globalization, worsening poverty and inequality. So its meetings will again be the site for massive, organized protests – against those policies and their apparent injustices. How ironic. Global institutions meant to attack poverty are viewed as vehicles to advance insider privilege and power. In Prague a year ago, and after the death of a protester in Genoa, the G-7 leaders are no longer dismissing the protests as merely some unfortunate combination of organized protectionist pressure and overzealous youth. But beyond good rhetoric and minimal spending on the digital divide and the AIDS pandemic, they seem at a loss about what to do. They are left rather haplessly insisting that the economists are fundamentally right, that what the world needs to reduce poverty and inequality is not less globalization but more.

Today I want to explore the facts behind these two different views of globalization. My basic argument is straightforward: 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 fair or just. Behind the demonstrations against the IMF, the World Bank and the World Trade Organization is a deep suspicion that the rules of the global economy are stacked against developing countries and in particular against the poor. Not all the suspicion is necessarily warranted, and in the case of trade restrictions what some anti-globalization protesters demand would make matters worse for many of the poor. But the protesters are right in one respect: even relatively benign *outcomes* may belie fundamentally unequal *opportunities* in an unfair global game. Those of us here today, as students of international affairs, are among globalization's insiders. We do well to examine critically the underlying opportunities, and their likely implications for globalization's "outsiders."

I proceed in three parts. First, the facts behind the mainstream economists' assertion of a good outcome up to now: globalization is not increasing poverty and inequality. Second, the underlying opportunities: why and how the rules of the new global economy are stacked against the developing countries and particularly the poor in those countries. And third, a brief concluding remark about what needs to be done, if we are to

¹ These meetings were subsequently cancelled in the aftermath of the terrorist attacks of September 11.

shape a future global economy and society that is less poor and less unequal, not only or primarily because it is more or less globalized, but fundamentally because it is more fair.

The mainstream view: Globalization is reducing poverty and inequality

I will define globalization, then discuss evidence on changing global poverty and inequality, and then try to relate the two subjects.

Globalization. By globalization I mean the increasing integration of economies and societies, not only in terms of goods and services and financial flows, but of ideas, information, and people. This increasing integration is the outcome of two phenomena: technologically driven declines in the costs of transportation and especially of communications; and policy driven reduction of former international barriers to the flow of goods, capital and ideas. Reflecting and reinforcing each other, technological change and policy have together brought a dramatic intensification of the integration process in the last two decades.

For most developing countries, globalization began in the 1980s. Prior to the 1980s, though developing countries participated in some multilateral trade agreements, they did so essentially via special preferences that permitted them to retain relatively high levels of protection of their own markets. However, in the 1980s, and with increasing depth in the 1990s, most developing countries took steps to open and liberalize their markets. Along with reduction and elimination of tariffs and non-tariff barriers came fiscal and monetary reforms, privatization, deregulation, elimination of interest rate ceilings and other changes in the financial sector; in the 1990s came the opening of capital markets. The combined measures were part of a package that came to be known as the Washington Consensus. Liberalization of markets and accompanying, often socially painful structural change, was encouraged and supported by the IMF, the World Bank, and the U.S. Treasury, including with large loans typically conditioned on countries' adopting and implementing agreed policies.

This increasing reliance on markets in the developing and post-Communist world, is with good reason seen as part and parcel of the globalization process. And because of the conditioned loans, many of today's protesters see the turn to the market, and thus to global capitalism, as unjustly imposed on the developing countries. (This is so even though, ironically, the international loans generally were disbursed even when agreed conditions were not implemented.)

Changes in global inequality and poverty. Over the last 100 years, global inequality by most measures has been increasing. The ratio of the average income of the richest to the poorest country in the world increased from 9 to 1 at the end of the 19th century to about 30 to 1 in 1960, and to more than 60 to 1 today. So the average family in the U.S. is 60 times richer than the average family in Ethiopia or Bangladesh in purchasing power terms. This century-long increase in inequality is the result of a simple reality. Today's rich countries, which were already richer 100 years ago (primarily as a result of the Industrial Revolution), have been blessed with economic growth and have gotten a whole lot richer. Today's poorest countries, concentrated in Africa and South and Central Asia, were poor to start with, and have grown little if at all.

However, in the last two decades, the picture has changed somewhat. Some countries, including China and its smaller neighbors in East Asia, and more recently India, have been growing at faster rates than the already rich countries. It is difficult to imagine incomes in those countries ever fully converging to the level of rich countries. It would take China and India almost a century of growth at faster rates even to reach current U.S. levels. Still, there has been some catching up of income between the advanced industrialized economies and some developing countries – what economists call convergence.

What about changes in inequality within countries? Income inequality has been increasing steadily in the United States since the early 1970s, though the increase did level off in the last couple of years. In the last two decades, income inequality also increased in China, where phenomenal income growth has been heavily concentrated in urban areas; in most countries of Eastern Europe and the former Soviet Union, where growth has been minimal and the current poor are worse off than they were before the fall of Communism; and in Mexico, Panama and Peru in Latin America, a region where inequality rose during the low-growth years of the 1980s and failed to decline with the return to modest growth in the 1990s. On the other hand, it would be an exaggeration to say that rising inequality within countries has been the norm, or to associate it specifically with increasing global integration. In most countries, income inequality has simply not changed. In a few industrialized, including Japan, Canada, and Italy, income inequality has declined. The same has been true for a few developing countries, including Bangladesh, Ghana and the Philippines.

Recent studies combine data on differences across countries in average incomes with household data on incomes within countries to produce a “world” distribution of income. This measure lines up individuals or households around the world in a single unified ranking, and each person (or household) has the same weight in the distribution, independent of whether he or she lives in a small or large country. World inequality measured this way is incredibly high – greater than the inequality in the most unequal countries in the world (such as Brazil and South Africa, where the richest 20% of households are about 25 times richer than the poorest 20%).

Has world inequality by this definition been increasing? Over the last 100 years, yes. Those differences in historic rates of growth between what have become today’s rich and poor countries have dominated the “world” distribution.

However in the last 20 years that long-term trend has been moderated. With rapid growth in average income in China and to a lesser extent in India, two of the world’s largest poor countries, increases in world inequality have slowed. (The world distribution as I have described it of course gives much greater weight to these high population countries.) Average income of China’s poorest 20 percent of mostly rural households – more than a hundred million people – has grown rapidly (even though income of China’s urban households has grown even faster). Income in urban India has also been rising, including for the urban poor. If we compare not changes in average incomes between the richest and poorest countries, but changes in average incomes between the initially 20% richest and 20% poorest households in the world (from about two decades ago), we arrive at a less grim conclusion: world inequality, though incredibly high, is leveling off.

What about poverty? India and China also turn out to be key to the question of whether world poverty has increased or not in the last two decades. The percentage of the world's population that is poor (using the World Bank's poverty line of \$1 a day in 1985 dollars) declined between 1987 and 1998 from about 25% to 21% using World Bank figures, and the absolute number from an estimated 1.2 to 1.1 billion. Even those figures may be underestimates. The decline in poverty in India has probably been underestimated, and if so, the number of poor worldwide may be more like 600 million.

Globalization: not the culprit. So at the world level, it is fair to say that inequality is not increasing and poverty is declining. Moreover, even to the extent that inequality is increasing within some countries, if inequality is measured as the increasing ratio of income between the richest and the poorest countries, mainstream economists argue that globalization is not the culprit. Here are four of their arguments.

First, recall that global inequality is mostly a matter of differences between rich and poor countries stemming from past rates of growth. But historically it is the initially poor countries that aggressively sought commercial links to the rest of the world that grew quickly enough to catch up to their richer counterparts. These include Japan, beginning in the Meiji era between 1868 and 1912; and the poorer countries of Western Europe during the 19th century and then again during the post World War II period of European integration. For the developing world in the postwar era, they include the so-called miracle economies of East Asia in the three decades before the 1998 financial crisis, China in the last two decades, and India in the last decade.

Second, it is not only China and India but a larger group of poor, relatively closed countries that in the last two decades opened and liberalized their markets that have enjoyed higher growth rates. In a recent paper, two economists at the World Bank report that the top third of developing countries in terms of increases in trade to GDP in the last two decades grew faster in the 1980s and 1990s (3.5% and 5%) than in the 1960s and 1970s – faster than the developed countries as a group, and faster than the other two-thirds of developing countries with lower increases in trade/GDP ratios. Besides India and China, the “globalizing” group includes Bangladesh, Brazil, Malaysia, Mexico, the Philippines, Thailand and Vietnam. Even though income inequality within some of these countries failed to decline or even increased (China especially), their average growth brought their populations as a whole closer to the income of the rich countries, reducing world inequality.

Third, although income inequality did increase in some of the globalizers as defined above, across all developing countries there is no systematic relationship between openness to trade and changes in within-country inequality. It is not trade that explains differences in their inequality. Similarly, evidence from Latin America indicates that the overall package of reforms does increase wage inequality, but that is true only in the short run, and among reforms, trade liberalization is not a contributing factor. It is the opening of capital markets and financial sector liberalization that seem to raise wage gaps, and even then only temporarily.

Finally, among the globalizers, even where inequality has increased, poverty has generally declined. In addition to China and India poverty has declined in Chile, Costa

Rica, Indonesia, Vietnam, the Philippines, and Thailand, and more recently in Uganda and Mozambique.

But debate persists. You will not be surprised that there are technical counterarguments to the mainstream view. Some are due to issues of definition and measurement. First, if household incomes are compared across countries in terms of official exchange rates rather than in purchasing power parity terms, world inequality *has* increased. Purchasing power parity makes sense if we are comparing standards of living, since in the poorer countries households have access to services and other nontradables such as housing and education at local not international prices. On the other hand some poor countries must generate taxes in local currency to pay debt service at official exchange rates, to finance their participation in international trade negotiations, and so forth.

Second, inequality of *wealth* in the world is almost surely increasing, and income from wealth is measured poorly if at all in the standard data on the distribution of income. Concentration of wealth matters if it leads to concentration of political power and locks in privileges and economic advantage; a possible example is 1990s Russia.

Third, the economic studies rely mostly on trade flows as the indicator of globalization. Though for most countries increases in their trade volumes in the last two decades coincided with rising incomes it is not clear that the opening of capital markets has led to growth. Many would argue that China and India are still relatively closed capital markets, especially in comparison to Mexico, Argentina and Thailand.

Fourth, though *increases* in the trade/GDP ratio for poor countries from low initial levels in the 1960s and 1970s are associated with increases in their average growth rates – e.g. in China, India and Mexico, as argued above -- *high initial* levels of trade/GDP in the 1960s and 1970s for many of Africa's poor countries were no guarantee of subsequent growth in the 1980s and 1990s. (The difference may be between countries that were able to break into manufacturing exports in the last decade, and countries that remained heavily reliant on primary commodity and mineral exports, with their volatile and declining terms of trade.)

Finally, those concerned that the global turn to the market is the problem are not convinced by reductions in world inequality that rely so heavily on the success of China and India. These are only two data points, and are hardly typical examples of market-driven capitalism.

Unequal opportunities: The rules of the global economy are stacked against the poor

Economists can debate definitions, measures, and interpretation of the facts *ad infinitum*. Let us instead turn to the question of how the global economy operates for the developing countries and in particular for the poor in those countries. There are three ways by which we could say unequal opportunity in the global economy sustains or worsens global injustice.

- The market *works*; in the global market game, those without the right equipment are in trouble before they start, without a social contract to correct their initial disadvantage.
- The market *fails*; in the global economy, the resulting negative externalities raise new costs for the vulnerable; market failures compound the risks faced by the already weak and disadvantaged.
- In the global economy, economic *power matters* more than ever; the winners usually make and implement global rules to their own advantage.

The market works. Globalization is shorthand for global capitalism and the extension of global markets. Markets that are bigger and deeper reward more efficiently those who already have productive assets: financial assets, land, physical assets, and, most crucial in the technologically driven global economy, human capital.

Everywhere in the world the returns to education (one measure of human capital) have been rising steadily for several decades. This is true despite the fact that more and more people are getting more and more education: the supply of more educated workers has not been keeping up with ever-increasing demand. In the United States, where the impact of global integration and of the accompanying information and communications revolution is probably the most widespread, the highly educated have enjoyed healthy earnings gains for three decades, while those with high school education or less have suffered absolute wage losses. Similarly in Latin America, between 1991 and 1995, the period of intense liberalization, the wage gap between the skilled and unskilled increased for six of seven countries for which reliable wage data are available. In Mexico, where the rural poor are concentrated in agriculture that had been protected prior to the NAFTA agreement and where education levels are low and unequally shared, income declined between 1986 and 1996 for every decile of the income distribution except the richest. In Eastern Europe, with the fall of Communism, the wage difference between those with and without post-secondary education has widened considerably. More open markets have also favored the young and have penalized women, many of whom worked in state enterprises and government.

Rising wage gaps in open and competitive markets should not surprise or alarm us; they may be a short-term price worth paying for higher long-run sustainable growth. They create the right incentives for more people to acquire more education, in principle eventually reducing inequality. On the other hand, inequality will worsen if its short-run effect gets locked in politically, such as through tax and expenditure decisions. Latin America is the classic example of how one generation's inequality of income has fed successive generations' inequality of education, resulting in a new round of education inequality. In Brazil in the early 1990s, 21-year olds from the richest families had 12 years of school, compared to about six years from the poorest. In the U.S., it is now college education that differentiates winners and losers. 80% of high school graduates from the wealthiest 20% of families attend college, compared to 34% from the poorest. Just about everywhere in the world (Cuba, China, Kerala state in India, all socialist entities, being exceptions) education reinforces initial advantages instead of compensating for initial handicaps.

In an increasingly global labor market the highly skilled are highly mobile, escaping even the traditional constraints of citizenry. Highly skilled labor may now be

said to be as footloose as capital. Indian engineers can quadruple their earnings by moving from Kerala to Silicon Valley, and Indian Ph.D. economists from Delhi to New Haven or Wall Street. In the long run this brain drain (an estimated cost in lost investments in schooling of billions for India) can generate offsetting remittances and return investments. In the short run, it increases the gains of winners relative to losers in the global economy.

Analogously for countries, the economic return to healthy and stable country institutions has also risen. Countries that are already ahead with stable political systems, secure property rights, adequate banking supervision, reasonable public services, and so on – are the ones most likely to get farther ahead, attracting more local and foreign investment and more entrepreneurial energy.

The efficiency gains and increased potential for growth of a global market economy are not to be disdained. But in modern market economies, a social contract tempers the excess inequalities of income and opportunity that efficient markets easily generate. Progressive tax systems provide for some redistribution, with the state financing at least minimal educational opportunities for all and some social and old age insurance. At the global level, there is no analogue. Statements of social and economic rights in the United Nations, and relatively minor transfers of financial and technical resources from rich to poor countries are as close as we have come to managing a global social contract. Ironically, one problem with the World Bank, a lightning rod for anti-globalization protests, may not be that it is too powerful, but that it is too weak to manage a global social contract.

The market fails. Markets fail in many domains. Global markets compound the risks and costs for the weak. What is true at the local level, where local polluters do not internalize the costs of their pollution, occurs at the global level, and often in spades. The rich countries that have historically emitted the highest per capita greenhouse gas emissions have imposed costs on the poor. In the absence of global government, collective agreements meant to minimize the negative externality require voluntary compliance. Countries that fail to join in a collective agreement to limit emissions are free-riding on those who do. The biggest polluters in per capita terms are the richest countries; if these states fail to join a consensus they in effect hold other, usually poorer countries, hostage to their behavior. It is hard to argue that globalization is in itself the cause of global warming. But in a global economy the inability and unwillingness of the winners to manage the problem aggressively is clearly unfair.

Global financial markets have increased the risk of financial contagion during any kind of global crisis. Poor countries are much more vulnerable than rich countries to this aspect of globalization, because their local financial markets are less resilient, and local and foreign creditors more wary. The International Monetary Fund is the world's institution meant to help countries manage macroeconomic imbalances and minimize the risks of financial shocks. But in the 1990s, the IMF was at best neutral and at worst detrimental to the developing countries in terms of opening their capital account. Debate continues among economists about the feasibility and merits of more open capital markets. Meanwhile, critics of globalization note that China's capital market remains closed and it survived well the 1997-98 crisis.

More troubling is the evidence that developing countries with open capital markets risk worsening inequality. In Turkey, Argentina and Mexico, countries that have suffered repeated bouts of inflation and currency devaluations in the last two decades, the ability of those with more financial assets to move them abroad has been disequalizing, and certainly appears unfair; those who move mobile assets often simultaneously acquire bank and corporate debt that is then socialized and paid by taxpayers. In parts of Asia and in much of Latin America, inequality increased during the boom years of high capital inflows in the mid-1990s as portfolio inflows and high bank lending fueled demand for assets such as land and stocks, which were beneficial to the rich. In both regions the poor and working class gained the least during the pre-crisis boom, and then lost the most, certainly relative to their most basic needs, in the post-crisis bust. The high interest rates to which the affected countries resorted to stabilize their currencies also had a redistributive effect, hurting capital-starved enterprises and their low-wage employees the most. The bank bailouts that often follow financial crises create public debt that is seldom equally shared; public debt implies a transfer from taxpayers to rentiers.

The problem developing countries face in global financial markets is even broader. Because global market players doubt the commitment of non-industrialized countries to fiscal rectitude at the time of any shock, they are forced into tight fiscal and monetary policy to reestablish market confidence at precisely the moment when in the face of recession they would ideally implement macroeconomic measures to stimulate their economies. The austerity policies that the global capital market demands of emerging markets are precisely the opposite of those that the industrial economies can afford to implement, such as unemployment insurance, increased availability of food stamps and public works employment, which are all fundamental ingredients of a modern social contract. We know that the effects of unemployment and bankruptcy can be permanent for the poor. In Mexico increases in child labor that reduced school enrollment during the 1995 crisis have not been reversed, implying some children did not return to school when growth resumed.

Developing countries cannot easily close their capital markets, nor would many want to. But the benefits of openness are asymmetric. For poor countries they are much riskier than for the advanced economies, with a greater likelihood and higher cost of financial contagion.

Economic power influences global rules and their implementation. What are some examples of global rules that are stacked against the interests of poor countries and the poor within them?

Trade is the most obvious and probably the most costly for the poor. The political constraints in rich and powerful countries dominate the design of the rules, putting agriculture and textiles at the end of the line for global negotiations. The protection of agriculture and textiles in the U.S. and Europe locks many of the world's poorest countries out of potential markets. Because these are the sectors that could generate jobs for the unskilled, rich country protection, through tariffs and subsidies, hurts most the poor. The recent initiative of the European Union to eliminate all barriers to imports from the world's 49 poorest countries was a small gesture, since those countries at least presently make up only a minuscule proportion of all world production. Even that initiative was watered down terribly by domestic political pressures. The U.S. continues to struggle with the fears

and insecurities that new trade agreements generate. The solution here is to provide salary insurance and other protection for workers who lose jobs.

Political constraints affect the way already agreed rules are implemented. The very process of complicated negotiations and dispute resolution puts poor and small countries with limited resources at a disadvantage. The use of anti-dumping actions by U.S. producers, even when they are unlikely to win a dispute on its merits, creates onerous legal and other costs to current producers in developing countries, and chills new job-creating investment in sensitive sectors. (Developing country firms, by the way, are likely to need to pay expensive lawyers at official exchange rates.) Even the Bush Administration, with the right rhetoric on free trade, is having difficulty resisting the pressure of the U.S. steel industry to invoke anti-dumping legislation.

International migration is governed by rules that are also stacked against the developing countries, and in particular against the poor and unskilled in those countries. Permanent migration is small relative to the past because higher-income countries restrict immigration. In the last 25 years, only 2% of the world's people have changed their permanent country residence, compared to 10% in the 25 years before WWI. Yet more movement would reduce world inequality considerably, as did the tremendous movements of Europeans to the Americas in the 19th century. An auto mechanic from Ghana can at least quintuple his income, just by moving from Ghana to Italy. Similarly a Nicaraguan agricultural worker, by moving to Arizona. During the recent boom in the information technology sector, the United States established a special program to allow highly skilled workers to enter with temporary visas – a good thing, no doubt, for the individuals, but also another example of the capacity of the already rich to benefit from their initial advantage.

What about intellectual property rights? Knowledge is not an excludable good. We aim to compensate for the resulting market failure through intellectual property rights. At the global level, those rights are now regulated by the WTO, under what is called the TRIPS, or trade-related intellectual property rights agreement. Intellectual property rights ideally balance society's gains from incentives for invention with the benefits of access to resulting products. But it is highly debatable whether the current international regime has achieved an appropriate balance for the poorest developing countries, where the minimum 20-year patent period under TRIPS implies higher costs for many products – the most notorious example being now in the area of AIDS anti-virals – with little likelihood of local creation of new products.

In fact the WTO rules allow countries to issue compulsory licenses for the production and importation of patented products, under certain circumstances. The U.S. has forgetfully issued compulsory licenses to mitigate the risk or abuse of monopoly power, and Canada, before signing NAFTA, regularly issued compulsory licenses for the domestic production of pharmaceuticals. But developing countries' use of compulsory licensing has been constrained by the imbalance of power. U.S. pharmaceutical firms have systematically pressured the United States Trade Representative to threaten extra-WTO sanctions against developing countries considering the use of compulsory licensing. Under tremendous pressure from civil society groups in the case of AIDS drugs, the U.S. has desisted from bringing formal actions against South Africa and more recently Brazil. But

Thailand is still under pressure, and for other less visible health problems than AIDS business as usual has meant asymmetric exploitation of legitimate WTO safeguards.

Economic power also affects the rules and the conduct of those rules by the international institutions. I have referred to the IMF's encouragement of open capital markets. The IMF and World Bank's lending, conditional on liberalizing reforms, reflects the influence and power of the Western advanced economies, especially the U.S. Even if the policies supported make sense – and I believe for the most part they do – the reality is that those who advocate them, through the international institutions, have no real accountability to the people in developing countries most affected by them. Developing countries are now the only borrowers, but are poorly represented, at least in the voting structure of these institutions. The lack of accountability, and the absence of checks and balances, has almost surely reduced the effectiveness of these institutions. The unsustainable multilateral debt of so many African countries speaks to this point. For all the good these global institutions can do in managing the downside of globalization, their current governance reflects and reinforces a worrying imbalance of power and influence in the global economy.

In conclusion

That poverty is declining worldwide and inequality after a century is leveling off is a good outcome, but not a sign that all is well in our new globalized economy. Even with some gains, there remain ample reasons for concern: the large number of countries where growth is minimal and inequality is rising or already high and unyielding – countries that have embraced the liberalizing reforms of the Washington Consensus; the vulnerability of developing countries in East Asia and Latin America to global financial crises; the debt problems of Africa's open economies. There are the psychological and social costs of increased insecurity in a more volatile global economy, and of new and visible consumption standards that even with rising incomes the poor cannot possibly attain. There are questions that go beyond the purview of economics and income to the effects of globalization on local cultures and on the sustainability of our natural environment.

I have dealt only indirectly with these issues – by asking whether they are the symptoms of a global economy in which opportunities are unequal and the rules of the game are simply not fair. Looking at the underlying rules responds less to the empirical question of whether poverty and inequality are worsening or not, and more to the troubling reality that they remain so high.

What to do? The answer is easy to state but politically difficult to implement. Asymmetric globalization has created a daunting challenge of global collective action. Those concerned with global justice should fight for a global social contract, for global rules and regimes in trade, property rights and migration that are more fair, and for global institutions that are representative and accountable to the poor as well as the rich. In practical terms in the short run that means reforming rather than undermining the existing global institutions, so they can manage the downside of globalization, reduce its asymmetry, and provide for a more equal world because it is more just and fair.

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The discussion of globalization and changes in global poverty and inequality relies on Birdsall (1998, 1999); Kanbur and Lustig (1999); Dollar and Kraay (2001); and Wade (2001), among others. The reference to the work of World Bank economists is to Dollar and Kraay. The discussion of 'the market works', for Latin America results, is based on Duryea and Szekely (1998) and Behrman, Birdsall and Szekely (2000a, 2000b).

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