



Globalisation, poverty and growth

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Globalisation, poverty and growth

- Globalisation is alleged to worsen poverty and inequality
- Because of over two centuries of uneven growth, we do indeed live in a very unequal world
- But global poverty and inequality became a little better in the 1980s and 1990s, the so-called age of globalisation, not worse
- Changes in relative growth made the difference
- International integration helped promote that economic growth, particularly trade

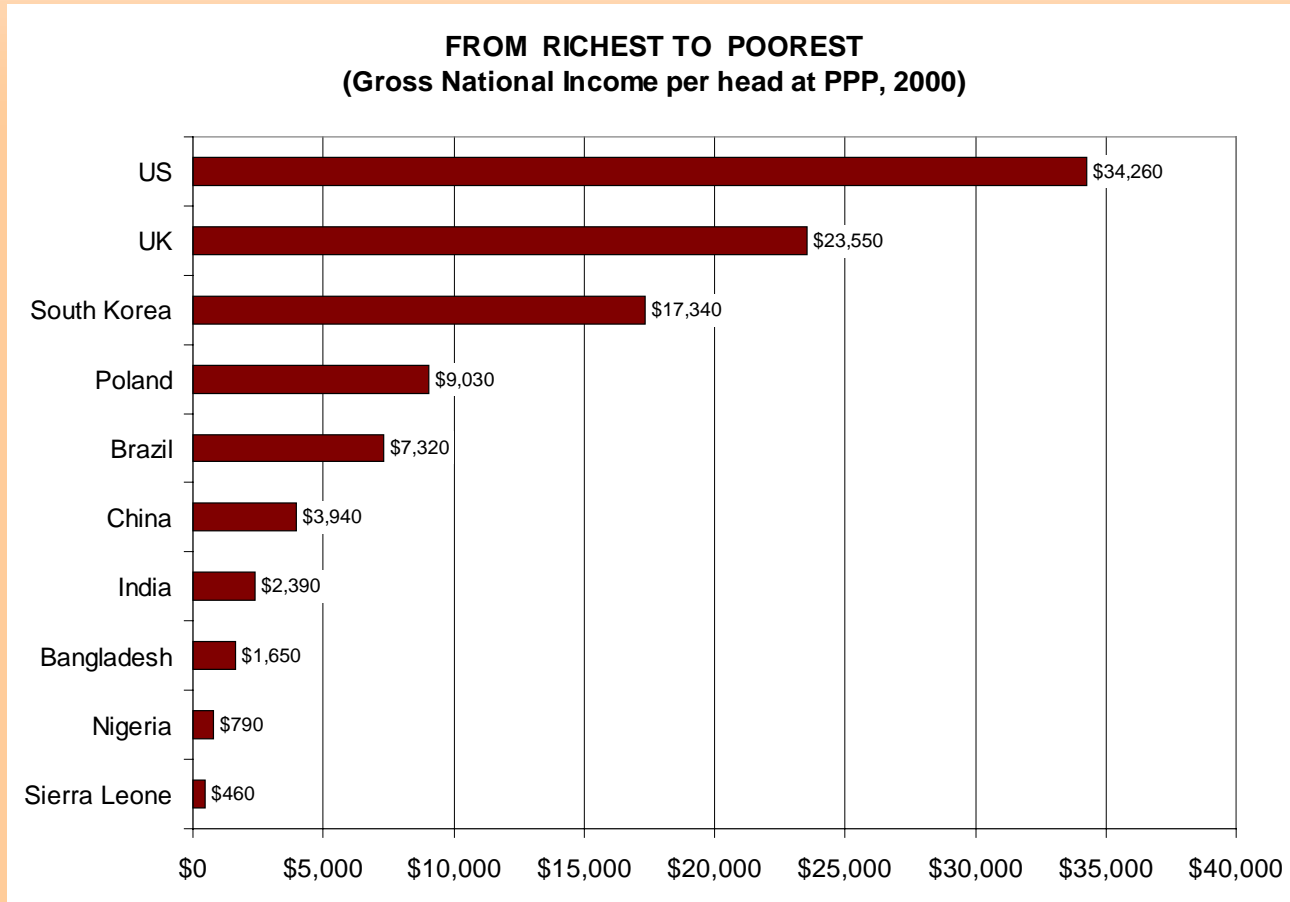
1. Charge sheet

- “Globalization has dramatically increased inequality between and within nations” Jay Mazur, “Labor’s New Internationalism”, *Foreign Affairs*, January/February 2000.
- “So far, the current wave of globalization, which started around 1980, has actually promoted economic equality and reduced poverty.” David Dollar and Aart Kraay, *Foreign Affairs*, January/February 2002
- Who is right?

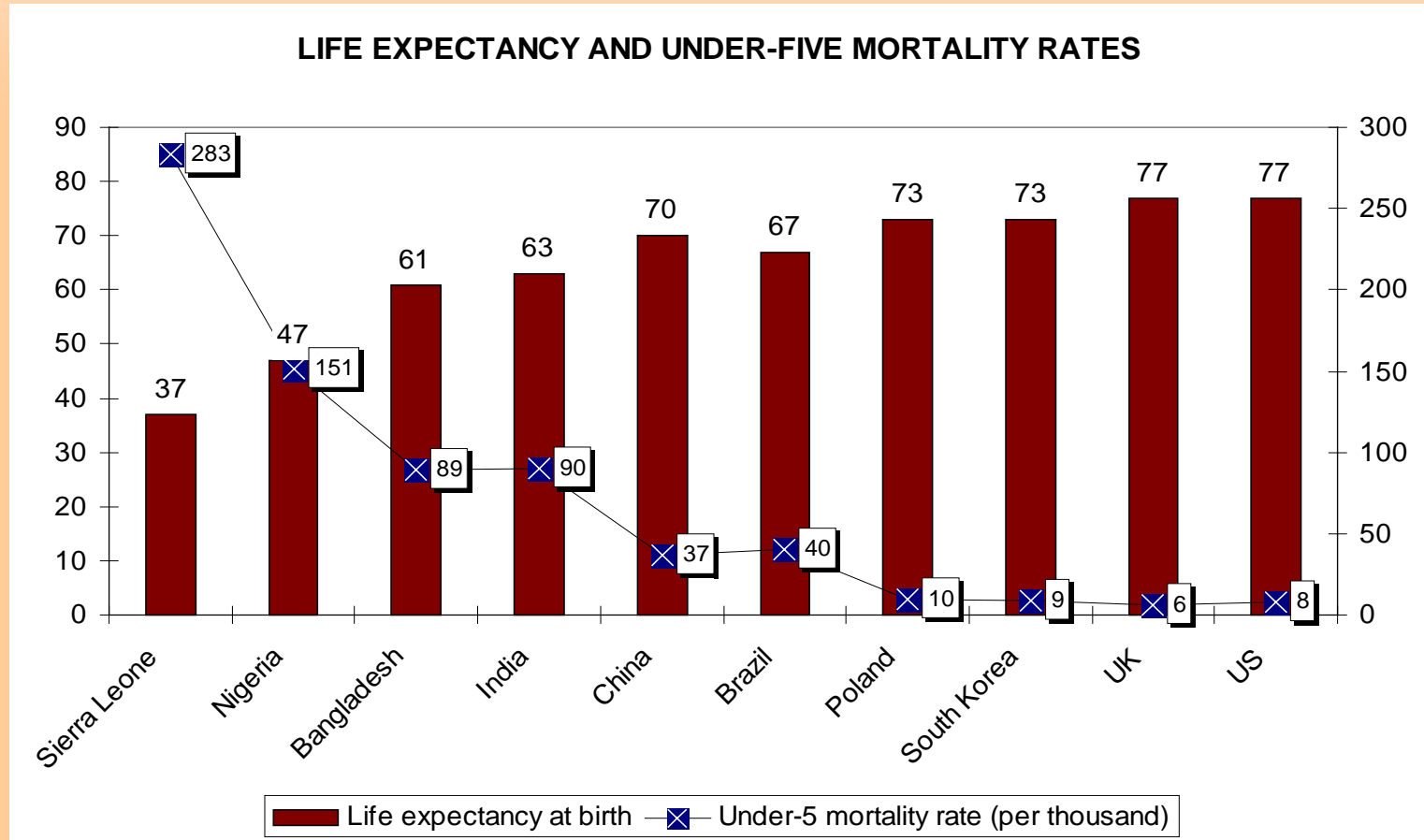
2. Today's inequality

- This is indeed a remarkably unequal world:
 - The rich countries with less than a sixth of world population generate 55 per cent of world real income at purchasing power parity
 - Low income countries, with 41 per cent of world population, generate 11 per cent of world incomes
 - The average real incomes of the top sixth are 14 times bigger than those of the 41 per cent in the poorest countries
 - Average incomes in the US (the richest country) are 75 times greater than those of Sierra Leone (the poorest)
 - 1.2bn people live on less than a dollar a day

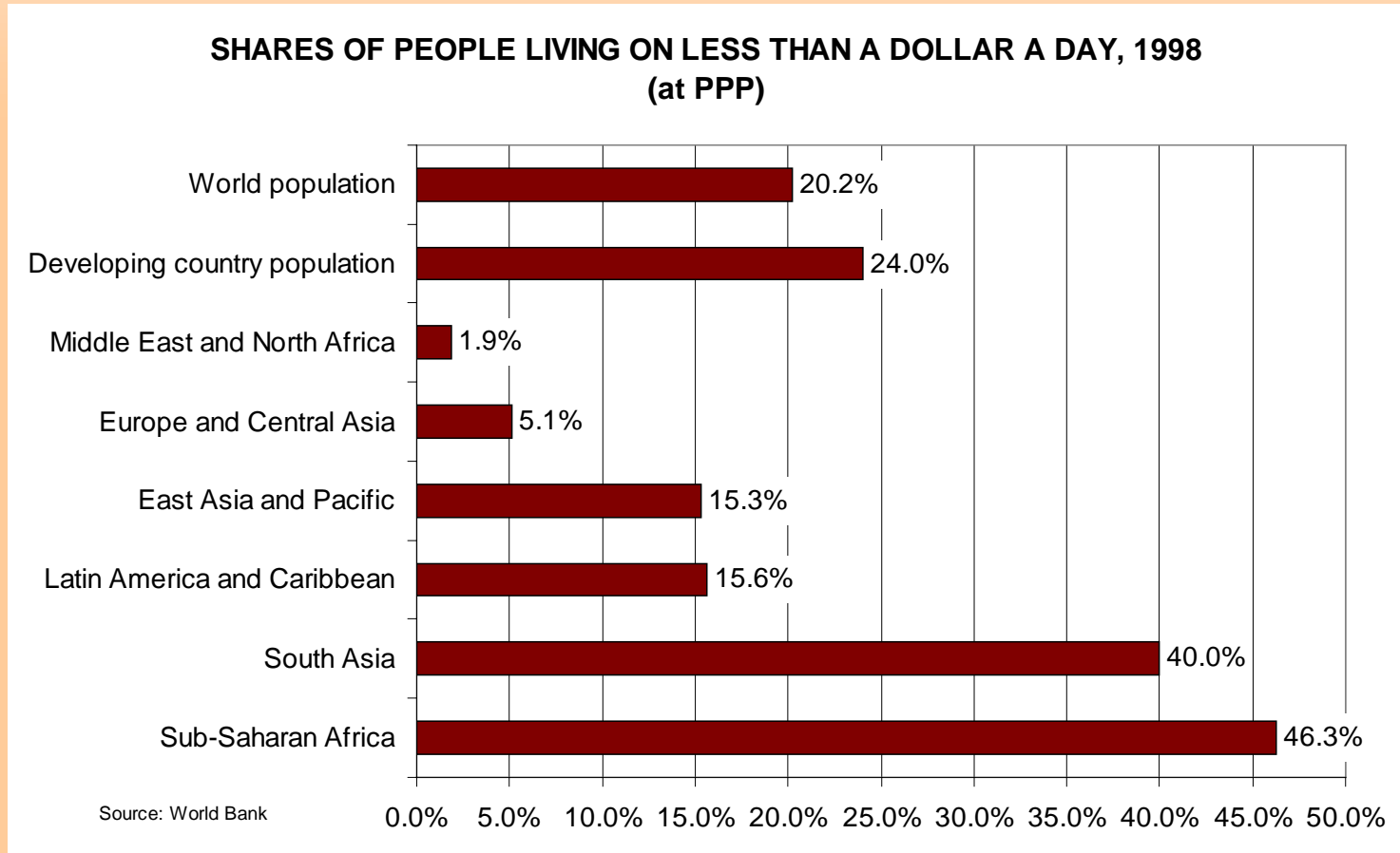
2. Richer and poorer



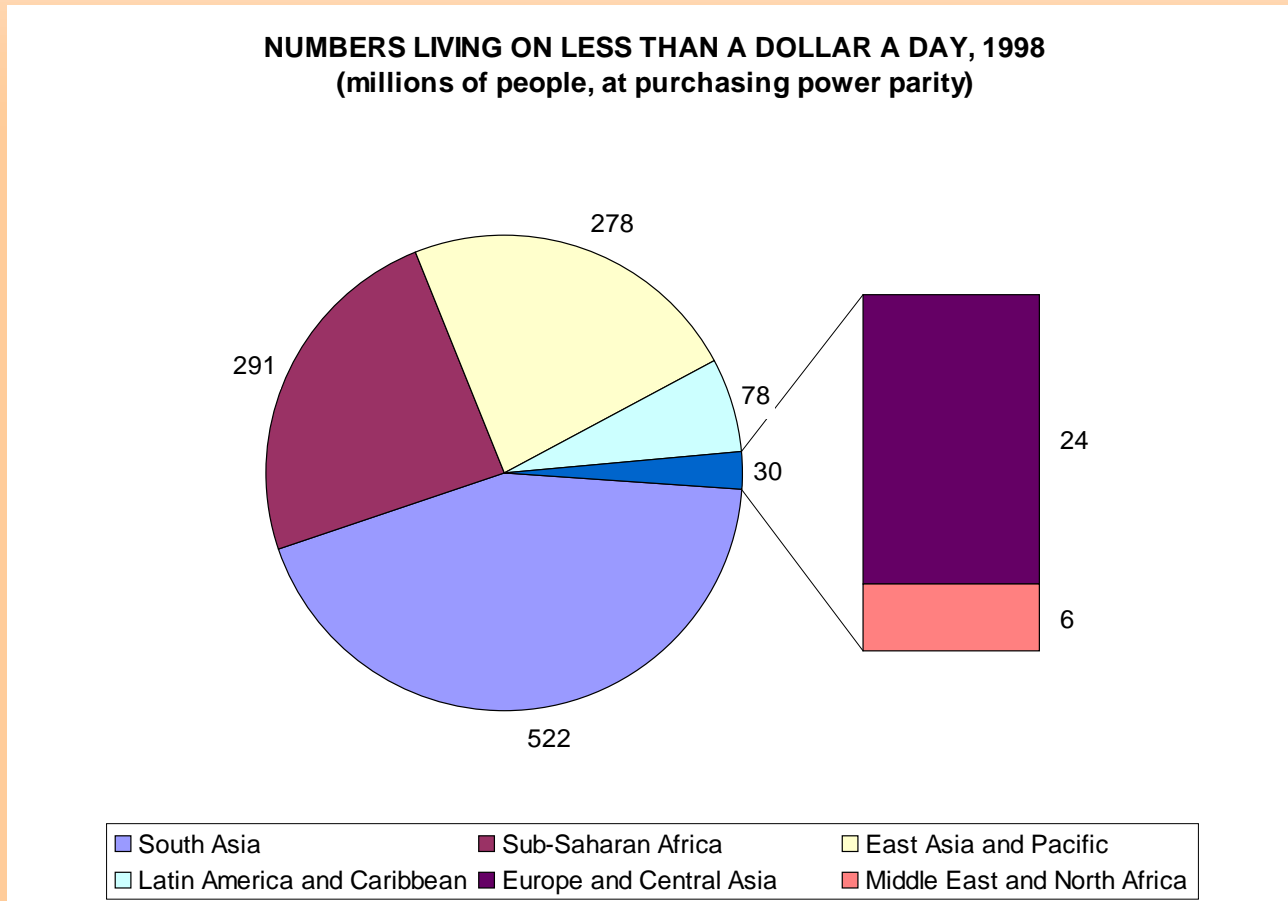
2. Richer live longer, but not so much any more



2. Where the poor live



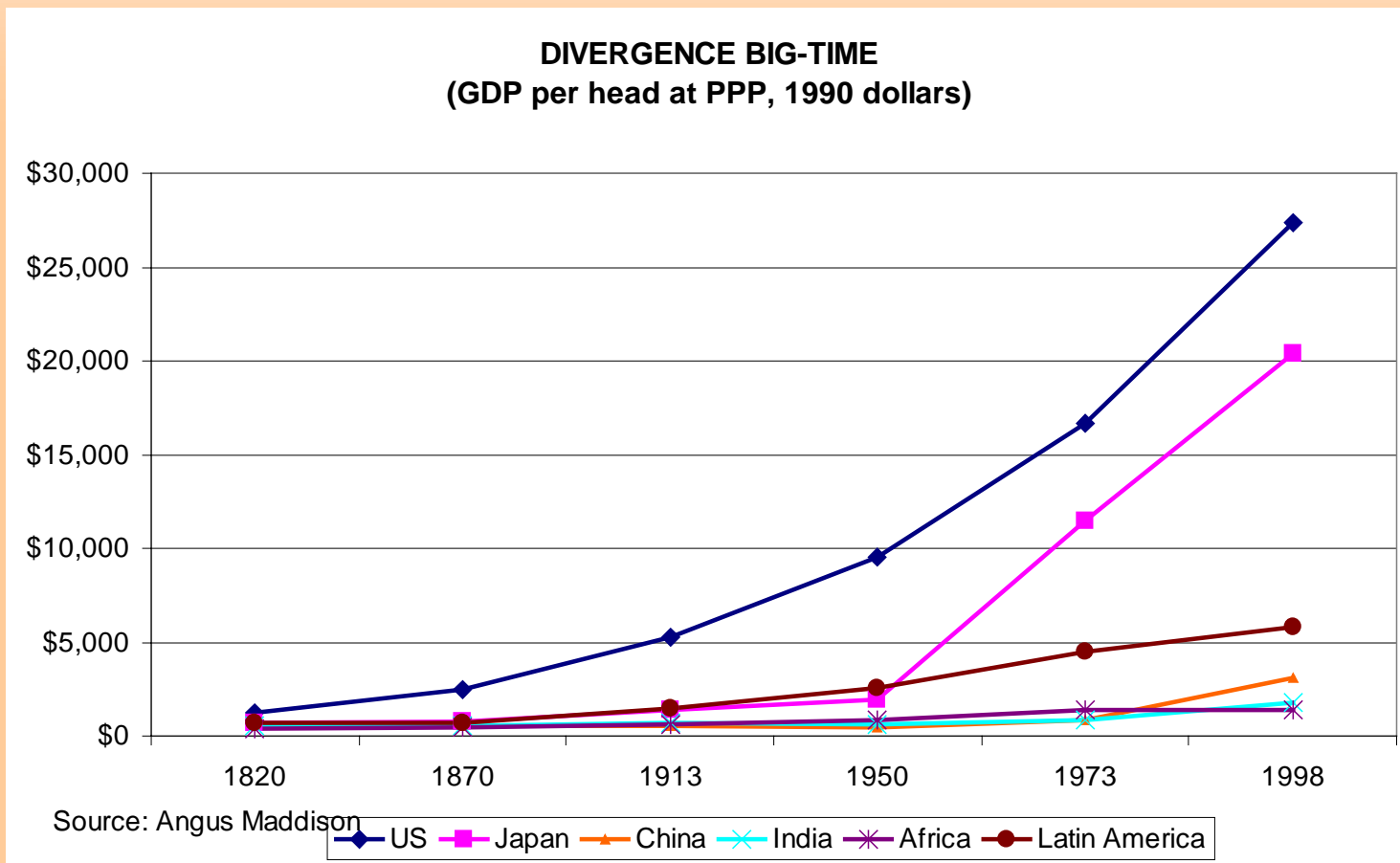
2. Where the poor live



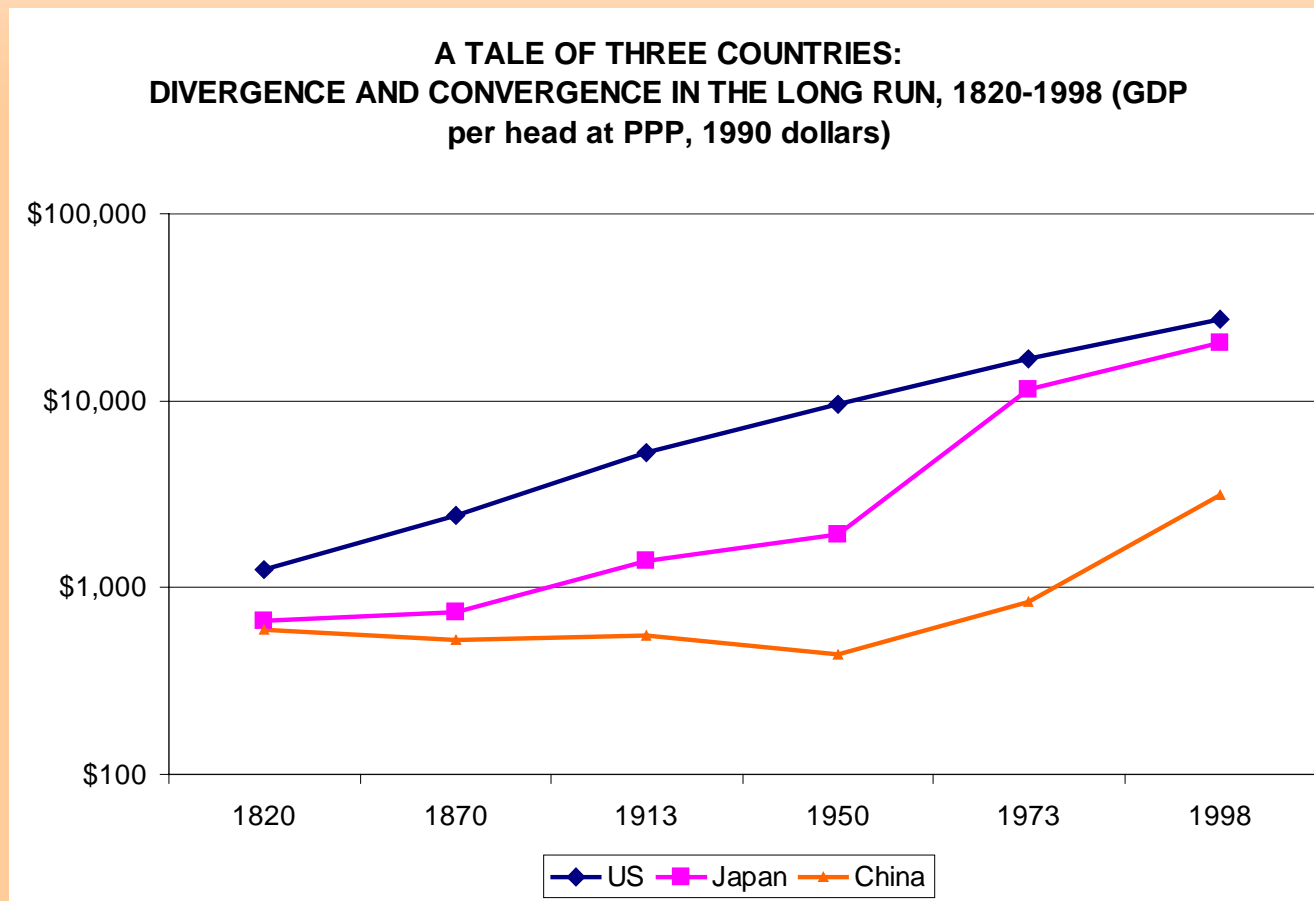
3. Growth in the long run

- The central features of the last two centuries have been three:
 - World population rose six times
 - World real GDP rose 50 times
 - World GDP per head rose more than eight times
- This growth in real incomes per head was (unavoidably) uneven, though most people gained
 - developing country real incomes per head, on average, rose five times
 - But developed country real incomes per head, on average, rose 19 times.

3. Differential growth in the long run



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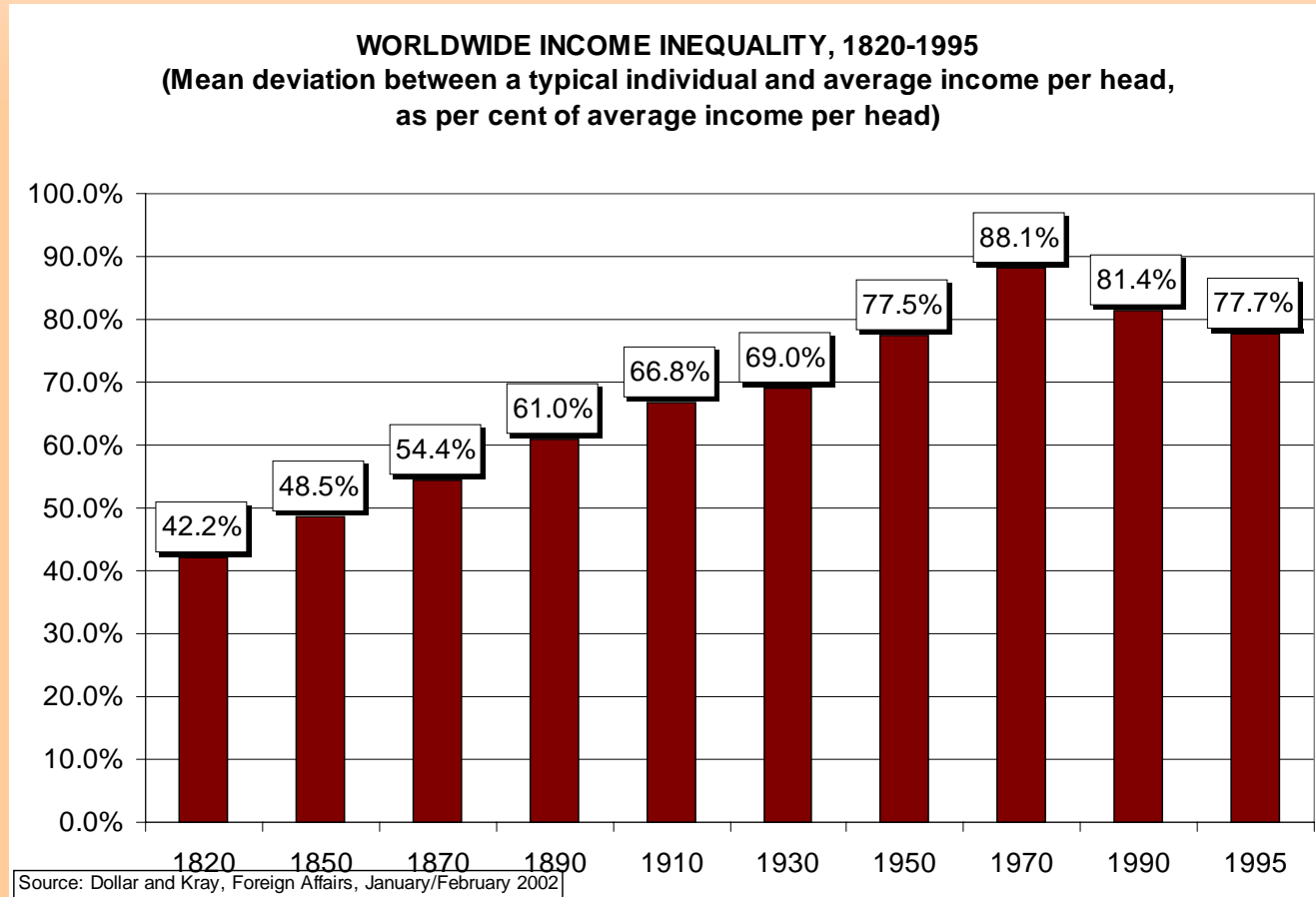


3. Poverty and inequality in the 1980s and 1990s

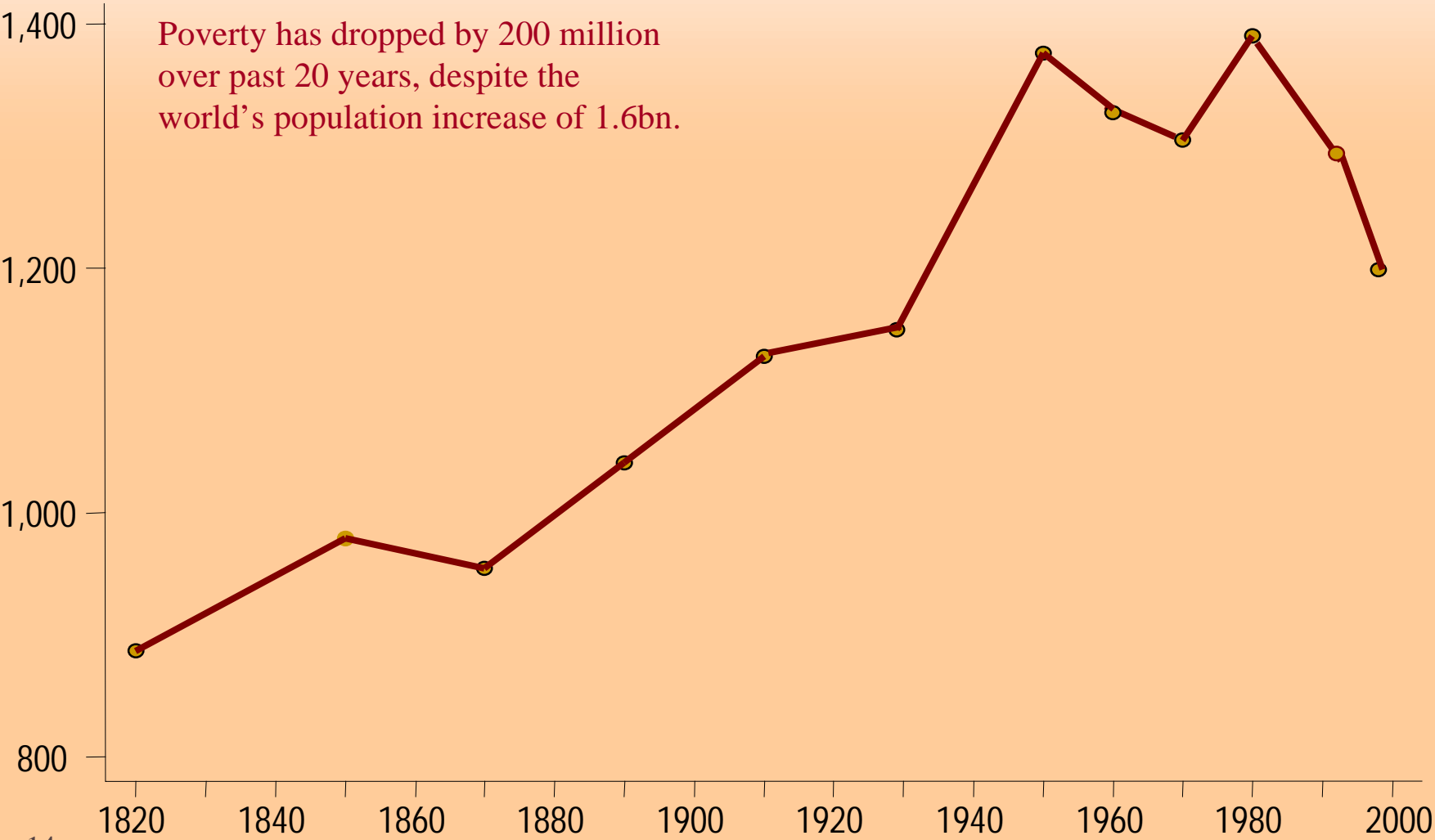
- The record of the 1980s and 1990s on inequality and poverty has been quite encouraging:
 - At the world level, household inequality has declined a little
 - The number of absolute poor has fallen a little, while the proportion of the poor in world population has fallen substantially
 - There have been particularly big declines in numbers in poverty in East Asia
 - But the absolute gaps between richest and poorest continue (inevitably) to grow

3. Growing global household inequality

Global household inequality increased fastest in the 19th century and peaked in 1970. The big reason for the declining inequality was fast growth in east Asia and, more recently, in India.

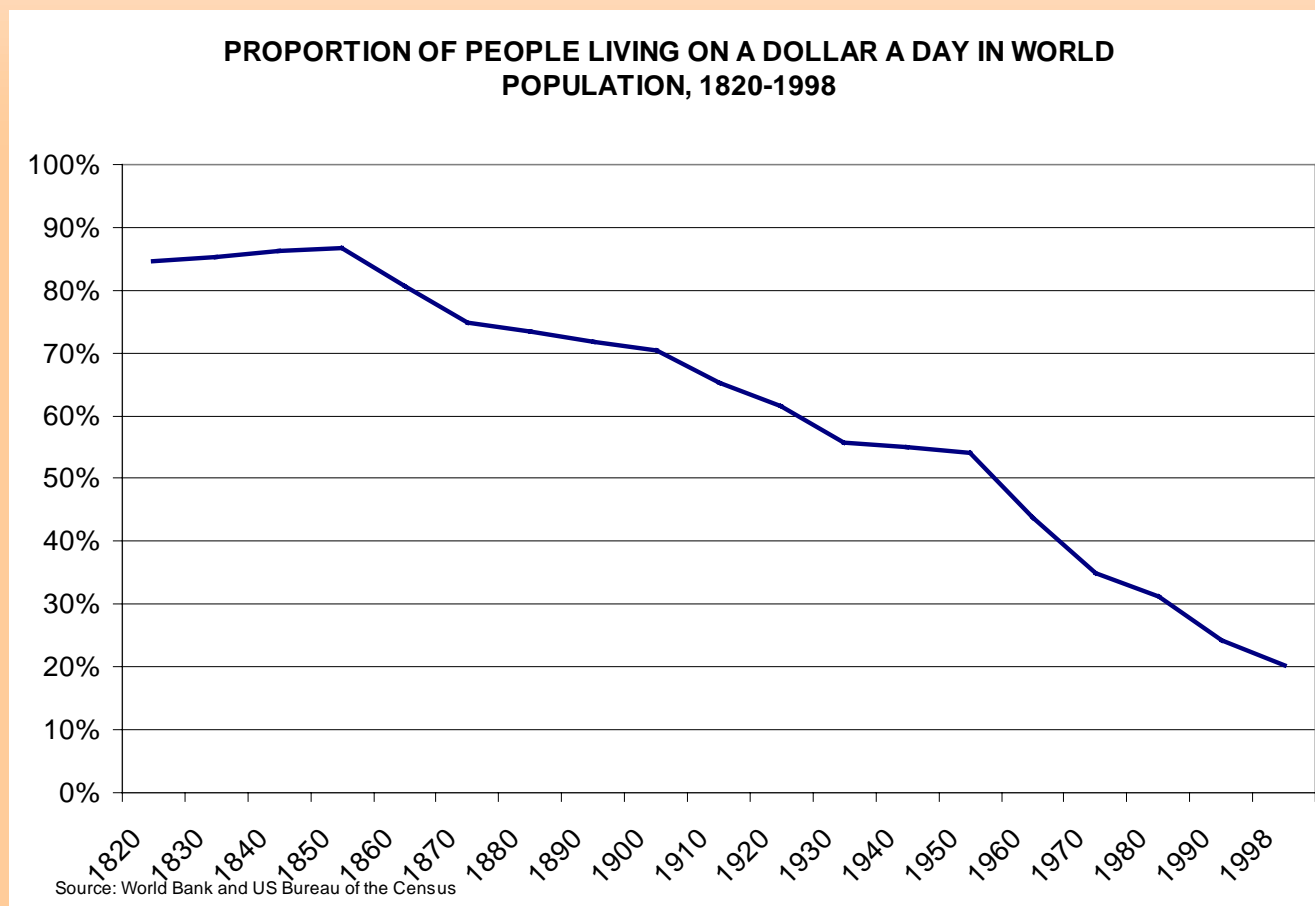


3. Rising poverty in absolute numbers



3. But decline in proportions of people in poverty

Extreme poverty has been in decline as a share of world population since 1850. It has fallen fastest in the last half century. It fell from 31 per cent of the world's population in 1980 to 20 per cent in 1998.



4. How to make things better

- How could we reduce either global inequality or mass poverty?
 - We could lower incomes in rich countries
 - We could move people from poor countries to rich countries - in big numbers
 - We could raise incomes in poor countries
 - by transfers
 - or by economic growth

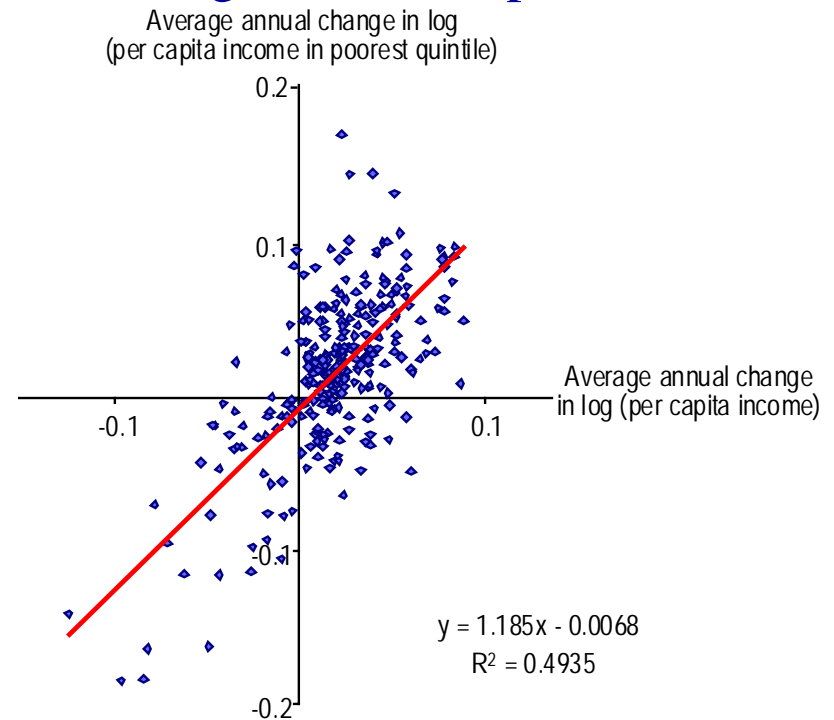
4. How to make things better

- Lowering incomes in rich countries would not be accepted - and would do nothing to reduce destitution
- Mass migration on the needed scale is inconceivable
- Large-scale transfers might be desirable, but are most unlikely to happen
- So, as Sherlock Holmes might have said, once we have eliminated the impossible, we are left with accelerated growth

4. Fast growth benefits the poor

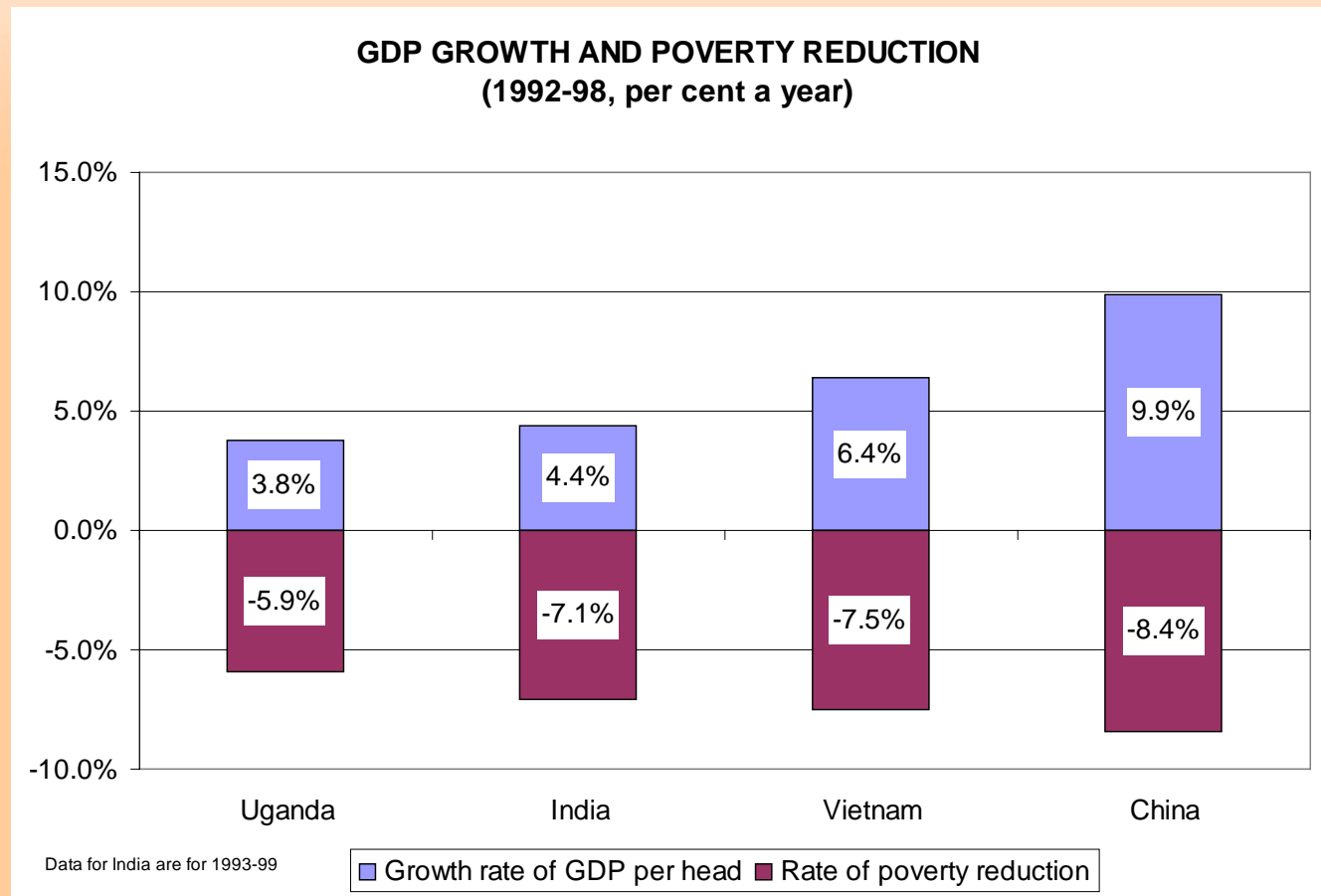
The poor tend to share in economic growth, which is why the poorest people live in the poorest countries

Figure 11.
Growth is good for the poor



4. This is true everywhere

Where growth has been very fast, so has been the pace of poverty reduction



Source: David Dollar, "Globalization: Who wins, who loses and what the world can do about it", July 17, 2001, World Bank

5. Globalisation - the winners and losers

- Globalisation matters largely through its impact on growth:
 - Developing countries with combined populations of 2.9bn have done quite well. This group includes China and India.
 - These are *ex post* globalisers. They have liberalised more and their trade has also grown more than that of non-globalisers

5. Globalisation - winners and losers

- Fast growth in the globalising developing countries has benefited the poor in those countries and also reduced global inequality
- Trade has, as always, been the handmaiden of growth. But rapid growth requires much much more than economic integration.
- This is not an argument for free trade or laissez faire
- It is an argument for letting the developing countries exploit international economic opportunities

5. The winners and losers

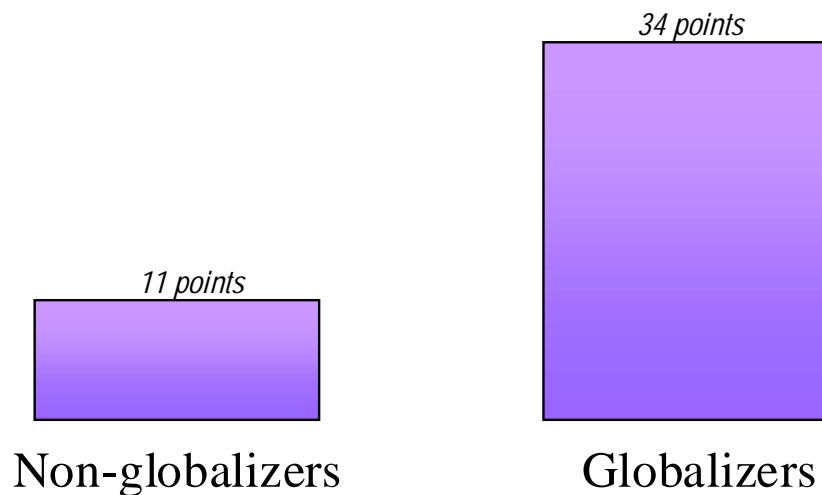
| | More globalised (24) | Less globalised (49) |
|----------------------------|----------------------|----------------------|
| Population 1997 (billions) | 2.9 | 1.1 |
| GDP per head 1980 | \$1,488 | \$1,947 |
| GDP per head 1997 | \$2,485 | \$2,133 |
| rule of law index | -0.04 | -0.48 |

Source World Bank

5. The winners and losers in trade policy

The winners have liberalised trade by more than the losers.

Figure 7.
Decline in average import tariffs:
mid-1980s to late-1990s

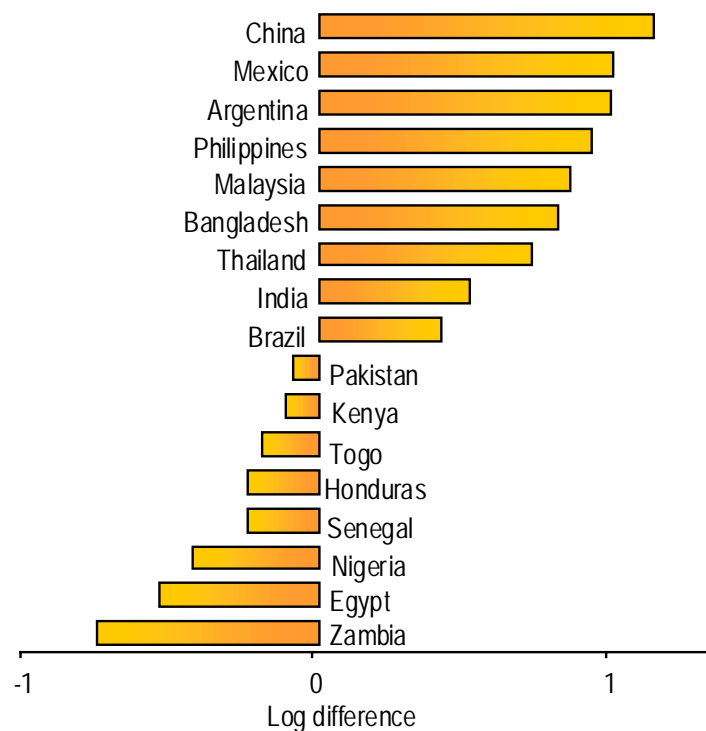


Source: David Dollar, “Globalization: Who wins, who loses and what the world can do about it”, July 17, 2001, World Bank

5. The winners and losers in trade

The winners have also increased their trade in relation to GDP, while the losers have seen their trade shrink.

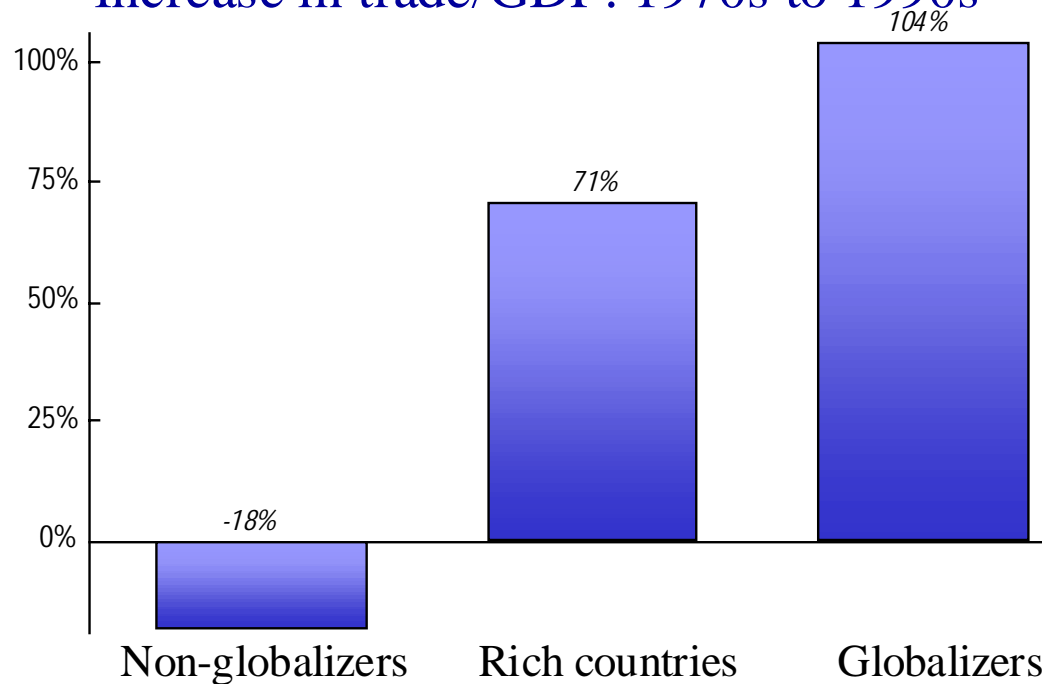
Figure 5.
Change in trade/GDP, 1977-97 (selected countries)



5. The winners and losers in performance

The difference in trade performance is stark at the aggregate level.

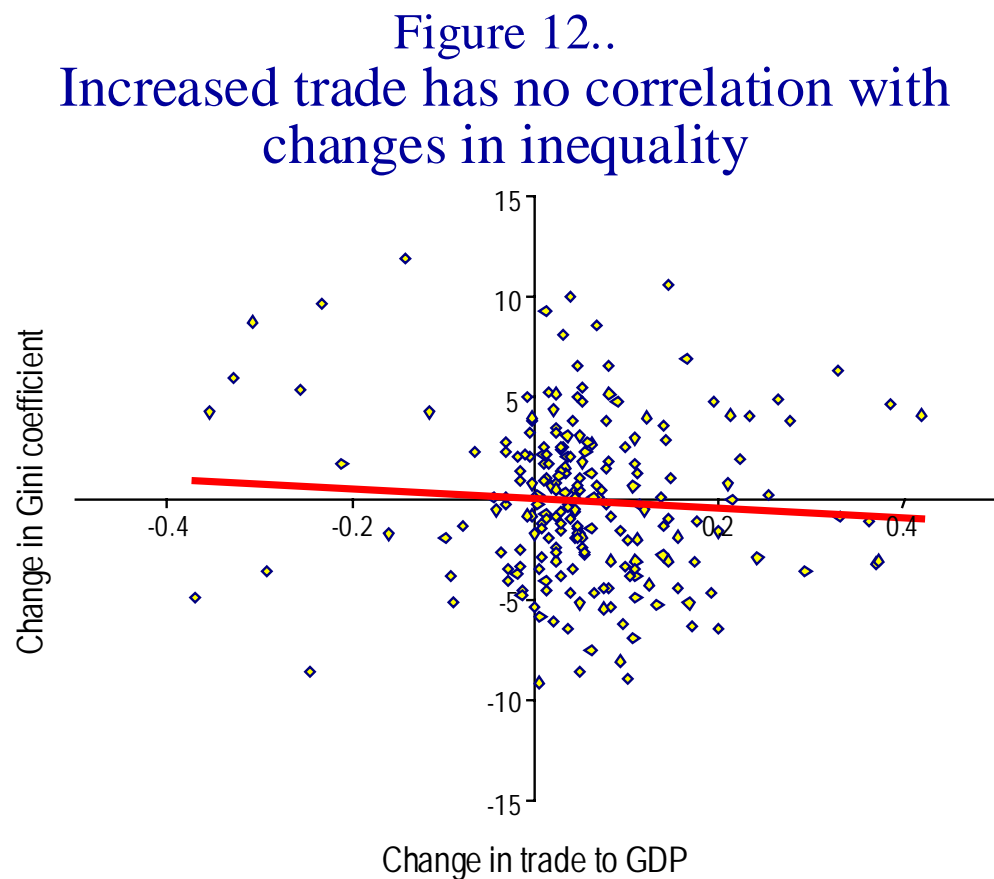
Figure 6.
Increase in trade/GDP: 1970s to 1990s



Source: David Dollar, "Globalization: Who wins, who loses and what the world can do about it", July 17, 2001, World Bank

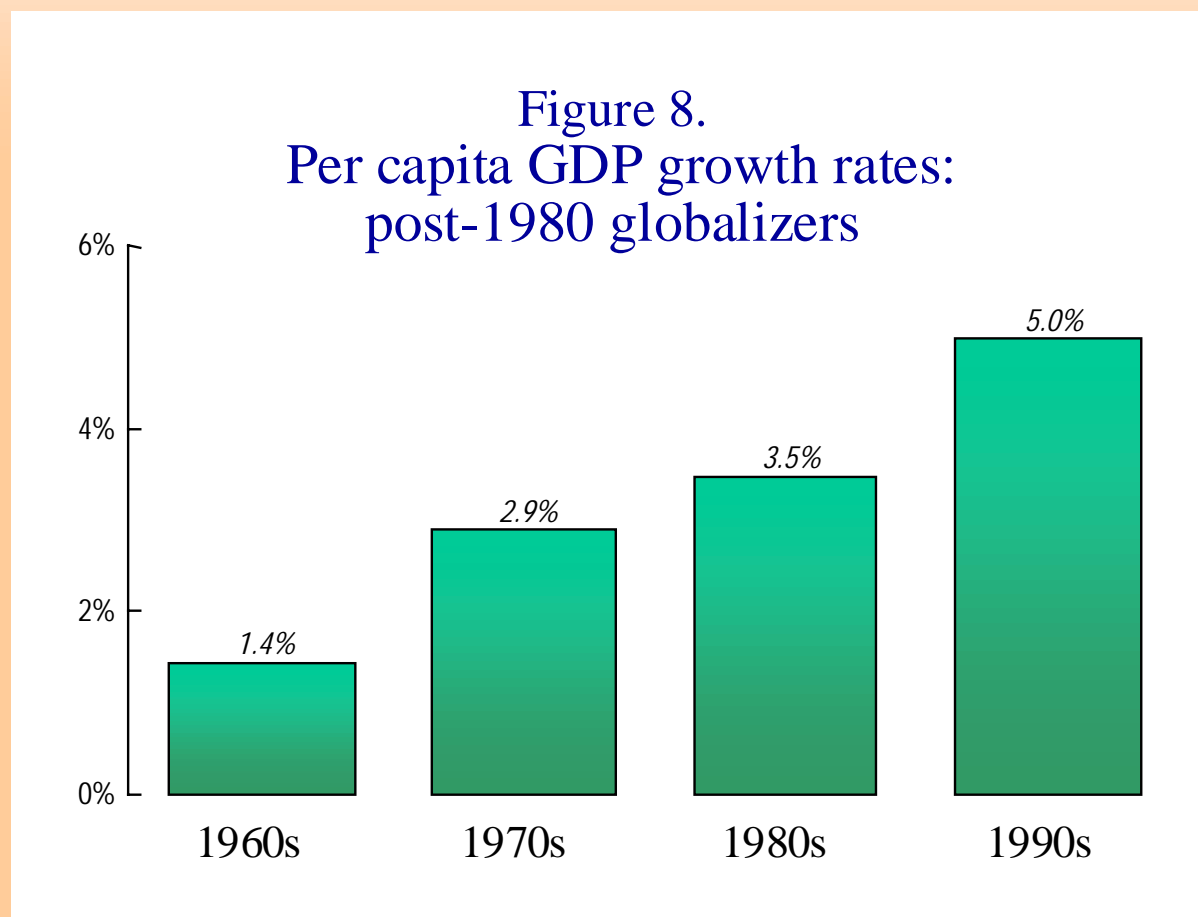
5. Trade does not harm the poor

And rises in trade ratios have not increased inequality. So if trade raises growth, it also normally helps the poor.



5. Winners in trade are also winners in growth

These globalisers
have indeed grown
faster and faster.



Source: David Dollar, “Globalization: Who wins, who loses and what the world can do about it”, July 17, 2001, World Bank

5. Trade as the handmaiden of growth

- “As far as we can tell, there are no anti-global victories to report for the postwar Third World. We infer that this is because freer trade stimulates growth in Third World economies today.” Peter Lindert and Jeff Williamson
- This conclusion is consistent with the weight of evidence. But multi-collinearity between good trade and other policies makes it difficult to demonstrate the causal connection

6. Conclusion

- Overall, there has been declining inequality and poverty in the present age of globalisation.
- Yet many of the poor countries have grown more slowly than rich countries
- This is the sense in which globalisation causes inequality: some countries seize opportunities better than others today, as they have done in the past
- The challenge is to help the failures do better

6. Conclusion

- At the world level, we need more aid, better targeted and open markets
- In developing countries we need honest and effective states, better infrastructure, education and health and greater reliance on market forces (including trade and inward investment)
- This is not an argument for either laissez faire or free trade
- And it certainly does not mean open capital accounts everywhere at once