

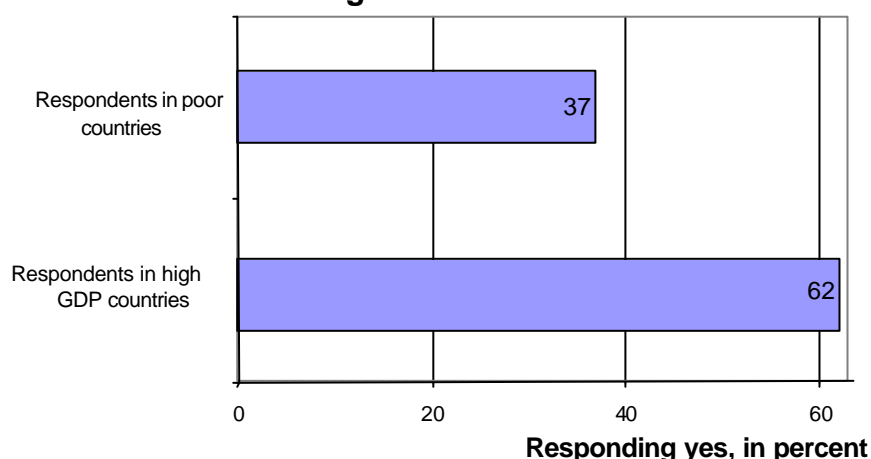
2. GLOBALIZATION: an instrument or an obstacle for development and poverty alleviation?

“To the detached observer, noting the contrast between the presumed benefits of globalization and developments in the real world, the international economy displays a number of worrying trends. Most obviously, poverty and inequality have grown alongside the expansion of globalization. In a world of disturbing contrasts, the gap between rich and poor countries, and between rich and poor people, continues to widen” Kevin Wadkins: Background Paper for the 1999 UNPD’s “Human Development Report”

PERCEPTION THREE.- *Globalization has led to rich countries becoming richer at the expense of poor countries, while at the same time it has also widened income gaps within individual countries.*

Academics, politicians, media and even many of globalization advocates “recognize” its unequal and asymmetric character: “It creates great winners but also great losers at the same time”²⁷. There is, for instance, a widespread perception that the poor benefit less from globalization. But, if one takes a closer look, this seems to be a perception mainly in richer countries – two thirds of the people asked in wealthy countries take this view.

Survey: Do poor countries benefit less than rich countries from globalization?



²⁷ Valaskakis, K. (2001).

Those who know, however, i.e., people in poor countries themselves, express a quite different view. Only about one third of them believe that globalization benefits them less than the richer countries, this means **two thirds of those who actually live in poor countries think the poor benefit at least as much** if not more.

Again, let us have a look at actual numbers, and they show a significant decrease in absolute poverty since 1980.

There are several sources with differing levels in the numbers of people living in absolute poverty (due, among other things, to different thresholds or the fact that some sources use income data while others consumption data). Matters are probably further complicated by people not being aware that there are two concepts, namely absolute and relative poverty. There is one level of absolute poverty across the world: some years ago it was defined in international organizations at the level of US\$ 1 per day per person (at purchasing power parities and prices of 1986). But every country defines its own poverty threshold, and then adapts it as overall wealth is increasing. The poverty line then becomes a moving target over time. A look at the long-term developments shows the ever-higher poverty standards in an impressive way. In 1908, minimum subsistence levels in the USA included 26 pounds of high protein food for a family of four. Fifty years later, the amount of high protein food in the definition of minimum subsistence had more than doubled to 55 pounds. Pre-1929 poverty/minimum budget standards practically excluded bathtubs, while the 1960 standard did require a bathtub for the exclusive use of the occupants of a housing unit.²⁸ In wealthy Switzerland, where official poverty is estimated at 6% of total population, in-depth surveys show that more than 90% of those households living below the Swiss poverty line own a TV, a CD player, refrigerator, telephone, etc., 72% own a car, 34% can afford

²⁸ US Census Bureau www.census.gov/hhes/poverty

a health insurance for private medical treatment.²⁹ Therefore, one should be aware of this fact when doing comparisons across countries and over time.

Any set of comparable data, however consistently shows a decrease in poverty, both shares in total population and, more importantly, absolute numbers of people living below the poverty line since globalization started to accelerate in the 1980s. The UN's Human Development Report, which in 1999 warned about a "disturbing trend" of widening income gaps, in its 2002 report recognizes that between 1990 and 1999, the proportion of the world's population living in extreme poverty fell from 29% to 23%, respectively³⁰.

Other studies based on different statistical methods fully confirm the pattern.³¹ In an in-depth study of 125 countries for the 1970-1998 period, Sala-i-Martin (2002) shows that absolute poverty and income inequality in the world have substantially diminished. Using the traditional definitions of absolute poverty, the proportion of people with average incomes of US\$1 per day (at constant prices) fell from 17% to 13% between 1970 and 1980 and was then cut in half to 6.7% in 1998.

When considering people with average incomes of US\$2 per day, the poverty rate dropped from 41% to 18.6% and the number of poor from 1,300 to 970 million³².

The following chart with data from yet another source, namely the World Bank's "Global Economic Prospects"³³ confirms the numbers and puts numbers into a long-term perspective. The increases in total poverty up to 1980 make the decrease during the period of globalization even more significant.

²⁹ Leu (1998)

³⁰ UN (2002).

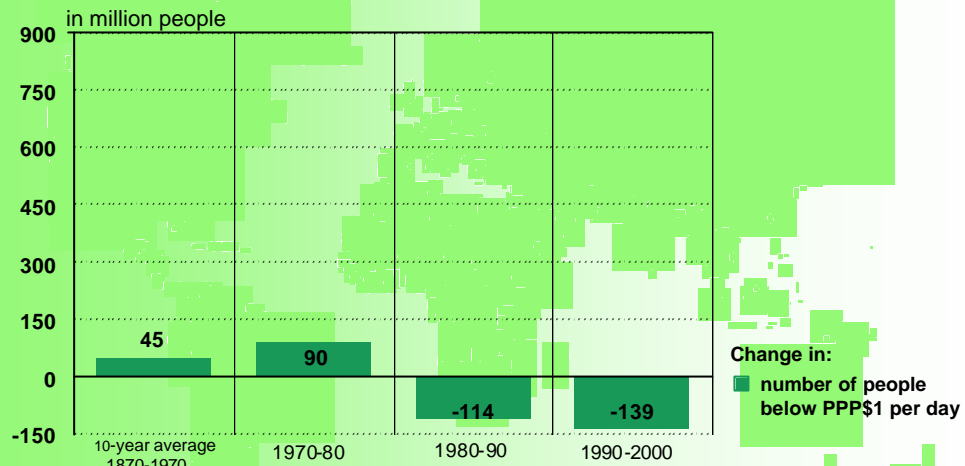
³¹ Lipsey, op. cit.; McGuckin-van Ark-Barrington. (2000). Goklany, I. (2002); and Sala-i-Martin, X. (2002)

³² Sala-i-Martin, op.cit.

³³ World Bank (2002)

Change in world poverty 1870-2000

(Average) changes in the number of poor - various 10-year intervals

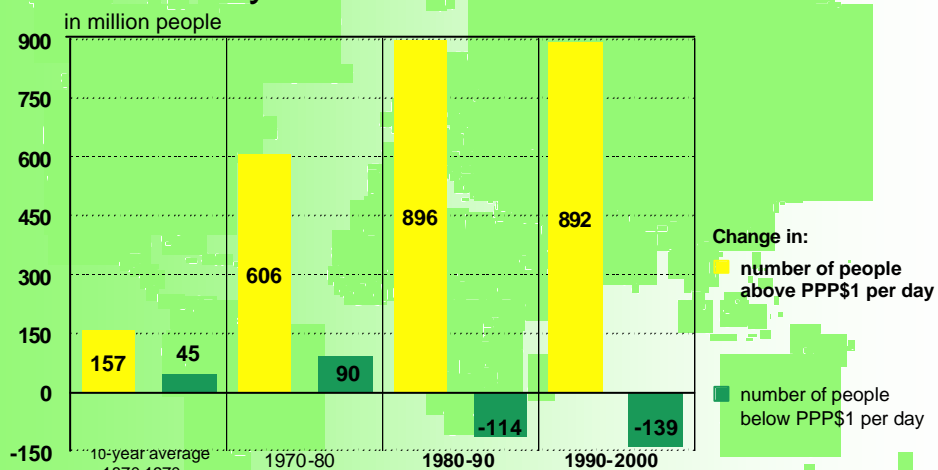


Source: World Bank 2002 Global Economic Prospects (on poverty); data for developing and transition economies

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But there is a second, probably even more important dimension, i.e., people establishing themselves above the poverty line.

More people lifted above poverty line - various ten-year intervals 1870-2000



Source: World Bank 2002 Global Economic Prospects (on poverty); data for developing and transition economies

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The past two decades of globalization coincide with the highest population growth in human history. What was forecasted as an unmanageable “Malthusian” strain actually turned into a highly positive outcome: in each decade – the 1980s and 1990s, about 900 million additional people were able to establish themselves above the poverty line.

The start of intensified globalization was indeed a turning point towards actually reducing global poverty and lifting huge numbers of people into initial modest prosperity. Thus, it remains the mystery of the erroneous contrary perception widespread in richer countries. It is mainly based upon selective or ad hoc (partial) data and anecdotal evidence.

Obviously, progress in reducing world poverty and inequality has not been homogeneous by regions; and second, that per capita incomes are an incomplete measure of human well-being. Therefore, any conclusion of whether globalization has benefited humanity in general, or favors the rich at the expense of the poor, should take into account other relevant indicators over time such as nutrition levels, life expectancy rates, health and/or sanitation³⁴.

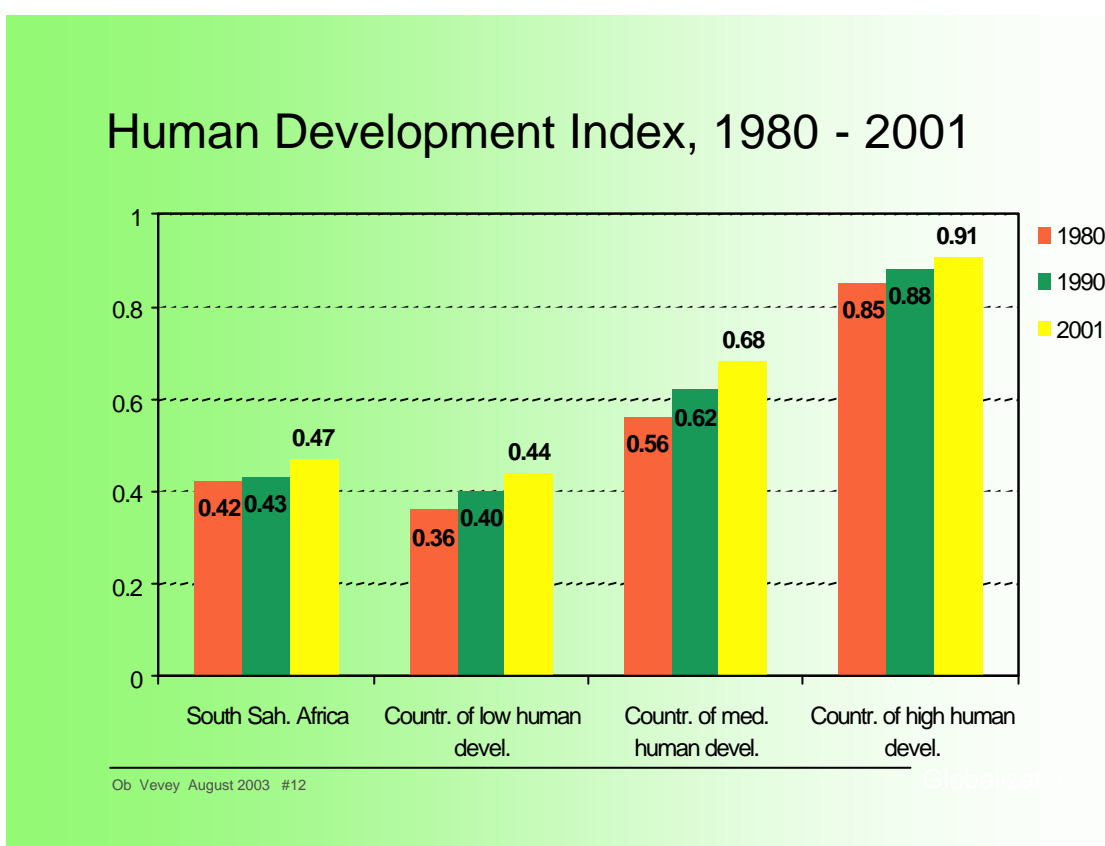
On the first point, since 1970 the greatest progress has been achieved by Asia, where practically all countries diminished their poverty levels. Latin America is in an intermediate position with a moderate improvement in average incomes over the same period, but African countries experienced a dramatic rise in poverty, and in many cases an absolute drop in average incomes. But China and partly also India – close to half of the world’s population live there – experienced a spectacular improvement in their living conditions³⁵. Africa’s situation is a serious cause for concern, but it should be pointed out that wars, political instability and failed policies and

³⁴ Goklany, I., op.cit.

³⁵ Sala-i-Martin, op.cit.

institutions have played a major role for this region's deterioration, not globalization.

As regards other measures of human well-being, the UN's Human Development Index (HDI) provides a better approximation than per capita income. Since 1980 the population-weighted HDI has improved for all major country groups: by 7% for the so-called high-development tier of countries, by 21% for the "middle-", and by 22% by the "low-" human development group of countries, as even for Sub-Saharan countries (plus 12%).



Improvement comes from many different components of the index. In particular, infant mortality (for children under 5 years of age) has diminished from 96 to 56 children for each 1,000 births; primary schooling has increased from 80 to 84% of world's population; the gap in average life expectancy between developed and developing countries has narrowed from 25.7 years in the early 1950's to 11.6 years in the late 1990s.

What conclusions can we draw from all these figures? First, that in terms of critical measures of prosperity, countries in the world are much closer to being equal now than they were 30 years ago, and in those regions where the gaps in prosperity have expanded, it is not because of too much globalization but because of too little. Despite differences in income growth rates, almost all countries have managed to substantially improve their living standards according to various alternative measures. “This suggests that advances, such as those in healthcare, are more widely diffused than are gains in income”³⁶. The rich countries are not better off because they have taken prosperity away from the poor ones; rather, the poor countries are better off because they have benefited from the technologies developed by the rich, and their situation would have further improved had they been better prepared to capture the benefits of globalization.

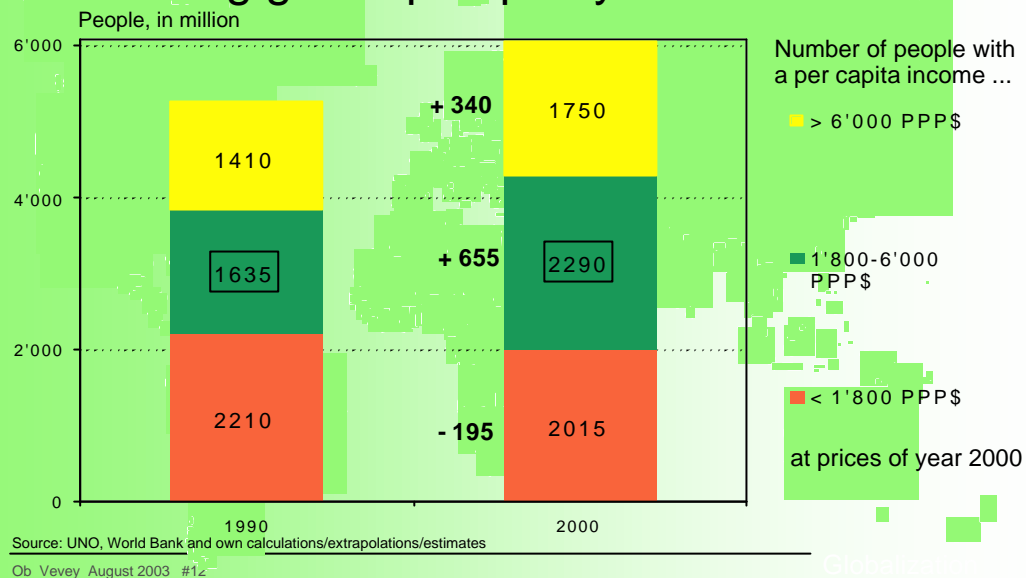
And, secondly, by protecting specific sectors, such as agriculture, through subsidies and import barriers, developed countries have retarded the pace of globalization and made it harder for many developing countries – and especially the rural areas with 70% of the people worldwide living under the poverty line – to catch up³⁷.

We have shown the story about people being lifted out of poverty. But the story on globalization does not end there. On all levels of income people are moving up; first out of poverty, then to some modest wealth, ultimately to levels where they themselves feel that they live "comfortably". The chart below shows what has happened over the last ten years on a global scale.

³⁶ McGuckin-van Ark-Barrington. (2000). Ibid.

³⁷ Goklany, I. op. cit.

World population by income groups – broadening global prosperity 1990 - 2000



Between 1990 and 2000, the number of people with an income between US\$ 1,800 and 6,000 (in purchasing power parities) increased by more than 600 million, the number of those with an income of more than US\$ 6,000 by more than 300 million. The number of people with less than US\$ 1,800 decreased significantly.