Methodological and Data Challenges to Identifying the Impacts of Globalization and Liberalization on Inequality

Albert Berry

Overarching Concerns
Programme Paper Number 5
October 2005

United Nations
Research Institute
for Social Development

This United Nations Research Institute for Social Development (UNRISD) Programme Paper has been produced with the support of the Rockefeller Foundation. UNRISD also thanks the governments of Denmark, Finland, Mexico, Norway, Sweden, Switzerland and the United Kingdom for their core funding.

Copyright © UNRISD. Short extracts from this publication may be reproduced unaltered without authorization on condition that the source is indicated. For rights of reproduction or translation, application should be made to UNRISD, Palais des Nations, 1211 Geneva 10, Switzerland. UNRISD welcomes such applications.

The designations employed in UNRISD publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of UNRISD concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

The responsibility for opinions expressed rests solely with the author(s), and publication does not constitute endorsement by UNRISD.

ISSN 1020-816X

Contents

Acronyms ii

Acknowledgements ii

Summary/Résumé/Resumen iii
- Summary iii
- Résumé iv
- Resumen v

Introduction 1
- The challenges to understanding the implications of G&L 1
- Globalization, liberalization, inequality and poverty 1
- Definition, measurement and research resources as impediments to better understanding of the links between globalization, liberalization, inequality and poverty 3

Pre-Reform Thinking and Predictions 4
- Expectations on the distribution and employment fronts 5
- The current institutional and popular discussion and the main participants 6
- The disappointed expectations and resulting policy reformulations 6
- Special features and limitations of United Nations institutions' research 10
- Institutional contributions through data collection and dissemination, and through a general emphasis on the poverty challenge 13

Concerns: What Has Happened to the Level of Inequality Since 1980 14
- Introduction: Facts and points of dispute 14
- The world distribution of income and the level of world poverty 16
- Globalization/liberalization and the world distribution of income 20
- Intracountry inequality 21
- Is globalization/liberalization a source of increasing country-level inequality? 21
- Evidence from history 22

Critical Review of Recent Analyses of the Effects of G&L on Inequality 23
- The methodological challenges 23
- The general (world) literature linking G&L to inequality 26
- The world literature linking G&L to employment 27
- The literature on the impacts of G&L on income distribution in Latin America 29
- The literature linking G&L to the employment record in Latin America 33

Summary and Concluding Thoughts 35

Bibliography 39

Papers on **UNRISD Overarching Concerns** 45

Tables

Table 1: Decile distribution of world income and inequality measures 18

Table 2: Growth and exports in sub-Saharan Africa, 1970s, 1980s and 1990s 36

Acronyms

AIDS	Acquired Immune Deficiency Syndrome
ECLAC	Economic Commission for Latin America and the Caribbean
G&L	globalization and liberalization
G7	Group of Seven
GDP	gross domestic product
ICP	International Comparisons Project
IDB	Inter-American Development Bank
IFIs	international financial institutions
ILO	International Labour Organization
IMF	International Monetary Fund
ISI	import substituting industrialization
LDC	least developed countries
LSMS	Living Standards Measurement Survey
NBER	National Bureau of Economic Research
NGO	non-governmental organization
OECD	Organisation for Economic Co-operation and Development
PPP	purchasing power parity
PRSP	Poverty Reduction Strategy Papers
SME	small and medium enterprise
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UNRISD	United Nations Research Institute for Social Development
UNU	United Nations University
WIDER	World Institute for Development Economics Research

Acknowledgements

I wish to thank Gerry Helleiner, and participants in the United Nations Research Institute for Social Development (UNRISD) Seminar on Improving Knowledge on Social Development in International Organizations II (29–30 May 2002, Prangins, Switzerland), for useful comments on earlier drafts of this paper. They are absolved of remaining errors and defects.

Summary/Résumé/Resumen

Summary

Globalization (the increasing degree of economic interaction among countries) and liberalization (reductions in government intervention in markets, partly with respect to international interaction but also more generally) are two of the defining features of the last couple of decades. Both have given rise to contentious debate, with views ranging from the very optimistic to the very sceptical. In this paper, Albert Berry reviews the evidence on how the two trends have affected inequality (and hence poverty) at the world level and within countries. The notable absence of consensus on these effects reflects both the dearth of adequate quantitative information and the lack of and difficulty in the analysis of the causal links among the phenomena. These weaknesses have interacted with the strongly held prejudices of many advocates and critics of globalization and liberalization (G&L) to produce many weak analyses and the extreme range of views. Nearly all of the strong policy recommendations of the last couple of decades have been based on analyses that were at worst weak and at best needful of considerable refinement.

Different groups of analysts and different organizations, especially during the earlier years of this phase of development, tended to reach systematically different conclusions. Within the United Nations community, broadly defined, the International Monetary Fund and the World Bank have been most inclined to view G&L as desirable phenomena, to be encouraged (which they have vigorously done). The other UN agencies have been less enthusiastic. Recent work carried out at the Economic Commission for Latin America and the Caribbean has been among the more balanced and higher quality work done thus far.

For the period since around 1980, which roughly corresponds to the new era of globalization and to a wave of liberalization, some conclusions on inequality and poverty trends seem more or less secure. First, this period, and especially the 1990s, has been characterized by a within-country tendency toward increasing inequality of income distribution among persons. Second, in spite of that intracountry pattern, the world distribution of income among persons has been relatively stable (as is true for the last half-century, in fact), probably declining slightly. Third, since average income growth for the poorest deciles of the world distribution was substantial, poverty levels have continued to decline, though the improvement of this variable was small in the 1990s when a low poverty line (for example, $500 in 1985 US dollars, or less) is used. The surprising fact that world inequality has fallen, even with a general tendency for intracountry inequality to rise, is explained by the strong growth of the world's two most populous low-income nations, China and India. Excluding these two countries, there has been a marked increase in inequality worldwide and no poverty reduction. Other worrisome aspects of the recent record are that the 1990s were less good than the 1980s, and growth continued to be slow in sub-Saharan Africa, increasingly the locus of the world's poor people.

Analysis of the possible links between globalization, liberalization and inequality/poverty is far too limited to provide any reliable conclusions at this point. Such inquiry is farther advanced for Latin America than elsewhere. The range of likely average impact of G&L on country-level inequality goes from mildly negative to strongly so over the short to medium run. No studies have thrown much light on the long-run impact due to the recentness of the liberalizing reforms and the current wave of globalization. A high multiple of the amount of research carried out thus far would be necessary to provide reliable interpretations of these links.

While the effects of G&L on inequality and poverty remain murky, a reasonable guess would be that these phenomena cannot be credited either with a major positive contribution or a major negative one at the world level, though their impacts in certain specific countries are probably much greater. Over recent decades, growth of per capita income in the low-income countries has been the key determinant of changes in world inequality and poverty; thus the most important effects of G&L could be on the growth rates of those countries. If G&L have in fact

contributed significantly to declining world poverty over the last couple of decades, the only likely route through which they will have done so would be a positive impact on growth in China and India, a matter which requires detailed analysis of the experiences of those two countries.

Future impacts of G&L could be either more or less positive than past ones. Possibly the "convergence" often postulated as an effect of globalization will eventually occur. Two current causes for doubt about its early arrival are the poor performance of sub-Saharan Africa, and the frequent observation (especially in Latin America) that globalization has widened the technology and productivity gaps between those operating in world markets and everyone else, without raising the employment share of the former.

Albert Berry is Professor of Economics at the University of Toronto, Canada, and Research Director of the Programme on Latin America and the Caribbean at the University's Centre for International Studies.

Résumé

La mondialisation (degré croissant d'interpénétration économique entre les pays) et la libéralisation (moindre intervention des gouvernements sur les marchés, en partie pour régler les échanges internationaux mais aussi dans d'autres domaines) sont deux des caractéristiques des deux dernières décennies. Toutes deux ont donné lieu à une vive controverse, les avis allant des plus optimistes aux plus sceptiques. Dans cette étude, Albert Berry examine les éléments recueillis sur la façon dont les deux tendances ont affecté l'inégalité (et, par là, la pauvreté) au niveau mondial et à l'intérieur des pays. L'absence notable de consensus sur ces effets traduit à la fois l'indigence d'informations quantitatives satisfaisantes, la difficulté d'analyser les liens de cause à effet entre les phénomènes et le manque d'analyses sur ces sujets. Ces faiblesses, conjuguées aux préjugés bien ancrés de nombreux défenseurs et détracteurs de la mondialisation et de la libéralisation (M&L), sont à l'origine de la médiocrité de bien des analyses et de l'extrême diversité des points de vue. Presque toutes les recommandations claires faites en matière de politiques au cours des 20 dernières années ont reposé sur des analyses qui étaient, au pire, faibles et, au mieux, avaient besoin d'être considérablement affinées.

L'analyse, faite par des groupes différents et des organisations différentes, en particulier au début de cette phase de développement, avait tendance à aboutir à des conclusions systématiquement différentes. Dans les grandes lignes, disons que, dans les milieux des Nations Unies, le Fonds monétaire international et la Banque mondiale étaient enclins à voir dans la M&L des phénomènes souhaitables, à encourager (ce qu'ils ne se sont pas privés de faire), alors que les autres institutions des Nations Unies étaient moins enthousiastes. Les récents travaux de la Commission économique pour l'Amérique latine et les Caraïbes ont été parmi les plus équilibrés et ont atteint une qualité rarement égalée jusqu'à présent.

Pour la période de 1980 à nos jours, qui correspond en gros à l'ère nouvelle de la mondialisation et à une vague de libéralisation, certaines conclusions sur l'évolution de l'inégalité et de la pauvreté semblent plus ou moins sujettes à caution. D'abord, cette période, et surtout les années 90, s'est caractérisée par une tendance à une distribution de plus en plus inégale des revenus entre les personnes à l'intérieur d'un même pays. Deuxièmement, malgré cette tendance à l'intérieur des pays, la distribution des revenus entre personnes a été relativement stable au niveau mondial (comme c'est le cas pour le dernier demi-siècle, en fait), et a sans doute légèrement reculé. Troisièmement, comme la croissance des revenus moyens pour les déciles les plus pauvres de la distribution mondiale a été sensible, les niveaux de pauvreté ont continué à baisser, bien que l'amélioration de cette variable ait été faible dans les années 90 lorsqu'on utilise un seuil de pauvreté bas (par exemple 500 dollars E.-U. de 1985, ou moins). Le constat surprenant d'une atténuation des inégalités mondiales coïncidant avec une tendance générale au creusement des inégalités à l'intérieur des pays s'explique par la forte croissance des deux pays à bas revenu les plus peuplés du monde, la Chine et l'Inde. Si l'on exclut ces deux pays, les

inégalités se sont nettement creusées au niveau mondial et la pauvreté n'a pas reculé. Autres aspects inquiétants: les résultats des années 90 sont moins bons que ceux des années 80, et l'Afrique subsaharienne, où se concentrent de plus en plus les pauvres du monde, continue à avoir une croissance lente.

L'analyse des liens possibles entre la mondialisation, la libéralisation et l'inégalité/ou la pauvreté est encore beaucoup trop limitée pour que l'on puisse se fier à ses conclusions. Elle est plus avancée pour l'Amérique latine que pour d'autres régions. Les effets moyens probables de la M&L sur l'inégalité à l'intérieur des pays vont de légèrement à fortement négatifs à terme court à moyen. Aucune étude n'a vraiment fait la lumière sur les répercussions à long terme des réformes récentes allant dans le sens de la libéralisation et de la vague actuelle de mondialisation. Il faudrait multiplier de nombreuses fois les recherches menées jusqu'à présent pour obtenir des interprétations fiables de ces liens.

Si les effets de la M&L sur l'inégalité et la pauvreté restent incertains, il serait raisonnable de n'attribuer à ces phénomènes aucune contribution marquante, ni dans le bon sens ni dans le mauvais, bien que certains pays en ressentent probablement les effets beaucoup plus que d'autres. Ces dernières décennies, la croissance du revenu par habitant dans les pays à faible revenu a été le principal déterminant de l'évolution de l'inégalité et de la pauvreté dans le monde; il se pourrait donc que les effets les plus importants de la M&L aient porté sur les taux de croissance de ces pays. Si la mondialisation et la libéralisation ont contribué à faire sensiblement reculer la pauvreté dans le monde, c'est uniquement, selon toutes probabilités, parce qu'elles auront eu un impact positif sur la croissance en Chine et en Inde, ce qui demande que les expériences des deux pays soient soumises à une analyse approfondie.

Les effets futurs de la M&L pourraient être plus ou moins positifs que ceux du passé. Il se peut que la "convergence" à laquelle devrait donner lieu la mondialisation, souvent avancée comme postulat, se produise finalement. Les raisons qui incitent à douter qu'elle s'amorce rapidement sont actuellement double: d'abord la triste situation économique de l'Afrique subsaharienne et l'observation souvent faite (en Amérique latine en particulier) que la mondialisation a creusé l'écart, en matière de technologie et de productivité, entre ceux qui évoluent sur les marchés mondiaux et tous les autres, sans augmenter la part des emplois des premiers.

Albert Berry est professeur d'économie à l'Université de Toronto, Canada, et directeur de recherches pour le Programme sur l'Amérique latine et les Caraïbes, au Centre des études internationales de cette université.

Resumen

La mundialización (la creciente interacción económica entre los países) y la liberalización (la intervención cada vez menor de los gobiernos en los mercados, en parte con respecto a la interacción internacional, pero también en términos más generales) son dos de las características que definen los dos últimos decenios. Ambas han dado lugar a un polémico debate, en el que las opiniones varían desde las más optimistas hasta las más escépticas. En este documento, Albert Berry analiza la evidencia del modo en que ambas tendencias han tenido efectos en la desigualdad (y, por tanto, en la pobreza) tanto a escala mundial como dentro de los países. La notoria falta de consenso sobre estos efectos refleja tanto la escasez de información cuantitativa adecuada como la falta de análisis de los vínculos causales entre los fenómenos (y la dificultad que dichos análisis conllevan). Estos puntos débiles han interactuado con los prejuicios profundamente arraigados de muchos defensores y detractores de la mundialización y la liberalización (M&L) para producir numerosos análisis poco convincentes y una gran variedad de opiniones. En los dos últimos decenios, casi todas las recomendaciones sólidas en materia de políticas se han basado en análisis que, en el peor de los casos, eran deficientes; o que, en el mejor de los casos, necesitaban perfeccionarse considerablemente.

Diferentes grupos de analistas y diferentes organizaciones, en particular durante los primeros años de esta fase de desarrollo, tendían a llegar sistemáticamente a diferentes conclusiones. Dentro de la comunidad de las Naciones Unidas, definida en un sentido amplio, el Fondo Monetario Internacional y el Banco Mundial se han inclinado más por considerar la M&L como fenómenos deseables que debían alentarse (como lo han hecho enérgicamente). Los otros organismos de las Naciones Unidas se han mostrado menos entusiastas. La labor desplegada recientemente en la Comisión Económica para América Latina y el Caribe destaca como la más equilibrada y de mejor calidad hasta la fecha.

Para el período que se extiende desde aproximadamente 1980, que en líneas generales corresponde a la nueva era de la mundialización y a una oleada de liberalización, algunas conclusiones sobre las tendencias de la desigualdad y la pobreza parecen más o menos seguras. En primer lugar, este período, y en particular el decenio de 1990, se ha caracterizado por una tendencia, dentro de los países, hacia una desigualdad creciente en la distribución de los ingresos entre las personas. En segundo lugar, a pesar de esta tendencia dentro de los países, la distribución mundial de los ingresos entre las personas se ha mantenido relativamente estable (al igual que ha sucedido en la segunda mitad del siglo), probablemente registrando un leve descenso. En tercer lugar, dado que el incremento promedio de los ingresos para los deciles más bajos de la distribución mundial fue considerable, los niveles de pobreza han seguido disminuyendo, aunque esta variable apenas experimentó una leve mejora en el decenio de 1990 cuando se utilizó "una línea de pobreza baja" (por ejemplo, 500 dólares de los Estados Unidos de 1985, o menos). El sorprendente hecho de que la desigualdad mundial haya disminuido incluso con una tendencia general hacia una desigualdad creciente al interior de los países, se debe al fuerte crecimiento de las dos naciones de bajos ingresos más densamente pobladas, es decir, China y la India. Para todo el mundo, a excepción de estos dos países, la desigualdad ha experimentado un notable crecimiento y la pobreza no ha disminuido. Otros aspectos preocupantes de las estadísticas recientes son el hecho de que el decenio de 1990 resultó menos positivo que el decenio anterior, y el lento, pero continuo crecimiento del África subsahariana, donde se concentra cada vez más la población pobre del mundo.

El análisis de los posibles vínculos entre la mundialización, la liberalización y la desigualdad/pobreza es demasiado limitado para facilitar conclusiones fiables en estos momentos. Éste se encuentra en una fase más avanzada para Latinoamérica que para el resto del mundo. El impacto promedio probable de la M&L en la desigualdad dentro de los países oscila entre ligeramente negativo y muy negativo, del corto al mediano plazo. Ningún estudio ha sido muy ilustrativo sobre los efectos a largo plazo, ya que las reformas de la liberalización y la oleada actual de mundialización son fenómenos recientes. Sería necesario multiplicar los estudios realizados hasta la fecha para proporcionar interpretaciones fiables de estos vínculos.

Si bien los efectos de la M&L en la desigualdad y la pobreza siguen sin estar claros, sería razonable suponer que estos fenómenos no tienen consecuencias ni muy positivas ni muy negativas en el plano mundial, aunque sus efectos en algunos países específicos probablemente sean mucho mayores. En los últimos decenios, el incremento de los ingresos *per cápita* en los países de bajos ingresos ha sido la clave determinante de los cambios observados en la desigualdad y la pobreza mundiales; así pues, podría decirse que la M&L afecta fundamentalmente a las tasas de crecimiento de dichos países. Si la M&L ha contribuido en gran medida a reducir la pobreza mundial en los dos últimos decenios, sólo pudo hacerlo teniendo efectos positivos en el crecimiento de China y la India, cuestión que exige un análisis detenido de las experiencias en ambos países.

Los futuros efectos de la M&L podrían ser más o menos positivos que los observados hasta ahora. Probablemente tenga lugar la "convergencia", considerada frecuentemente como un efecto de la mundialización. Dos motivos actuales de duda sobre su pronta llegada son el pobre desempeño del África subsahariana, y la frecuente observación (especialmente en Latinoamérica) de que la mundialización ha ampliado las brechas tecnológicas y productivas

entre los países que toman parte en los mercados mundiales y los restantes, sin elevar la proporción de empleo de los primeros.

Albert Berry es Profesor de Economía en la Universidad de Toronto, Canadá, y Director de Investigación del Programa sobre Latinoamérica y el Caribe en el Centro de Estudios Internacionales de esta Universidad.

Introduction

The challenges to understanding the implications of G&L

Two defining features of the last couple of decades have been globalization and liberalization (G&L). The former, at least in its economic dimensions, refers to the increasing degree of economic interaction among countries, reflected especially by rising shares of world output that are traded internationally and by rapidly expanding international capital flows. This second wave of globalization—the first corresponded to the second half of the nineteenth century and the beginning of the twentieth century—has been due both to reduced costs of transactions across countries and to policy decisions, as countries lower their barriers against trade and capital flows. Liberalization refers to reductions in government intervention in markets, partly with respect to international interaction—the policy decisions just referred to—but also more generally, as with labour markets, domestic financial markets and so on. It involves giving product and factor markets greater responsibility in the resource allocation in an economy.[1]

Both G&L have become very controversial issues, with views ranging from the very optimistic to the very sceptical. This range of views undoubtedly reflects to some degree differences across people and groups as to how they would like to see the world evolve; but probably it is primarily due to different beliefs as to what the impacts of G&L really are—on economic growth in the North and in the South, on the spread and health of democracy variously defined, on environment and sustainability. This paper reviews the evidence on the controversial issue of how these two trends affect inequality at the world level and within countries. Much of the time they are discussed together, because many participants in the discussion and debates tend either to support both or to criticize both. But it should be remembered that they are different phenomena and it should be clear that there is no strong reason to believe that their effects on inequality are similar, or in fact necessarily go in the same direction.

The lack of a clear picture of the effects of each of G&L on income inequality and on income poverty—that is, poverty defined by level of income—in the world reflects importantly both the dearth of adequate quantitative information and the lack of and/or difficulty in the analysis of the causal links among these phenomena. Another problem looms in the background: the ways in which we typically define inequality and poverty may not adequately reflect what matters to people—that is, we have conceptual and definitional problems on top of the informational and methodological ones.

These three challenges interact with and complement each other in generally negative ways. Lack of information on some of the determinants of welfare contributes to oversimplified conceptualization of the economic challenge. Lack of information also contributes to oversimplified or otherwise erroneous analysis. Lack of analysis has kept the effective demand for better data lower than it would otherwise have been.

The most serious weakness involves the identification of links from G&L to inequality and poverty, partly because of its inherent difficulty and partly because errors here lead directly to indefensible policy recommendations. Nearly all of the strong policy recommendations of the last couple of decades have been based on analyses that were at worst weak and at best needful of considerable refinement.

Globalization, liberalization, inequality and poverty

How do the processes of G&L affect inequality? Do those effects vary a great deal with the context? Do G&L generally affect inequality and/or poverty in similar or quite distinct ways? Answering these questions necessarily entails a general understanding of the determinants of income inequality, since it is not possible to assess the impact of one potential determinant without a general understanding of the role of the others. To identify the impacts of G&L on

[1] For a more detailed discussion of the concept of globalization, see Scholte (2002).

poverty as well as on inequality, one must also assess their impact on growth since that variable, together with the degree of inequality, determines the level of poverty.[2]

What surrounding conditions and policy instruments influence the way G&L affect inequality and growth? Two countries might go equally far down these paths but with different outcomes if, as is likely, those outcomes reflect the surrounding conditions and policies as much as the processes of G&L themselves. In modern parlance, the "quality" of growth would be different between the two experiences.

Of the relevant policy instruments affecting inequality, many correspond to—that is, are in the domain of—the industrialized countries. For example, perhaps the best single instrument to make increased trade with developed countries more beneficial in developing countries would be elimination of barriers to imports of labour-intensive products like clothing. Similarly beneficial would be lowering of barriers to immigration of lower-skilled people, though not necessarily the lowest skilled. Other policy instruments would be wielded in the least developed countries (LDCs) themselves. For example, assuring that the small and medium enterprise (SME) sector is duly linked to exports may be pivotal to assuring a substantial employment-creating and egalitarian distribution of the benefits.

Finally, the matter of how G&L affect poverty depends also on how this concept is defined. If relative income or consumption is a key element of a satisfactory definition of poverty—and authors like Easterlin (1974), Scitovsky (1976), Hirsch (1976) and Frank (1997) have argued that relative consumption is the central determinant of personal well-being in industrial countries[3]—then changes in distribution are likely to be the main source of changes in (meaningfully defined) poverty incidence. One might plausibly guess that income would be a more significant determinant of self-reported happiness in lower-income (developing) countries, and the available data do show this. Frank (1997:1834) notes that "most careful studies find a clear time-series relationship between subjective well-being and absolute income at low levels of absolute income". Where most people lack minimally adequate shelter and nutrition, additional income yields significant and lasting improvements in subjective well-being (Diener and Diener 1995). Reported satisfaction levels are significantly lower in extremely poor countries than in rich ones, and within countries the positive link between income and satisfaction is significant primarily at the lowest levels of relative income. "For individuals in the middle and upper portions of the income distribution, variations in income explain less the 2 per cent of variation in reported satisfaction levels" (Frank 1997:1834–1835, citing Diener and Diener 1995). This evidence leads Frank, among others, to put great emphasis on relative status as a source of respect and a determinant of well-being.

It follows from the above that, whether relative income is a direct determinant of feelings of deprivation, or simply an indirect determinant of poverty through its impact on how many people fall below an absolute poverty line, the relationship between the two potential sources of poverty reduction—growth and improved equity—is important. Many early postwar development theorists emphasized that growth might well worsen income distribution over a period (Kuznets 1955). Others, some who did not expect the early-stage worsening of distribution and some who believed that it would not be sharp enough to prevent benefits reaching the poorer groups, believed in the "trickle-down" theory whereby although growth is not designed particularly for the benefit of the poor, some of its fruits do nonetheless accrue to them. The record of the last half-century has basically confirmed the trickle-down theory, at least in the sense that much poverty alleviation has been achieved, even in countries that did not seem to overly concern themselves with that goal. The experience of Taiwan shows just how

[2] As long as the definition of poverty is absolute level of purchasing power.

[3] Specifically, when people in the industrial countries—where such surveys have been carried out with some frequency—are directly consulted about their happiness and its correlates, income seems to play a much smaller role than standard economic theory would suggest. It is moderately significant when the comparison is between people at different levels of the income hierarchy at a point of time but less so—some authors say virtually insignificant—as a factor in how average societal welfare changes over time, even when average incomes have risen considerably (Easterlin 1974, 1995; Scitovsky 1976; Oswald 1997).

complementary a very equitable distribution of income can be with very fast growth, even during the early phases (Ranis 1978). Other countries, while making the point in a less spectacular way, have records that are consistent with it. The growth-distribution discussion has thus gradually moved to a fairly general acceptance that the two objectives are not likely to be in conflict in any systematic way unless a bad combination of policies has been chosen. Policy choice appears to be important, since the range of experiences on both the growth and the distribution fronts suggests that policy may matter a great deal, that is, that not all of the variance of outcomes is due to differing exogenous circumstances.[4]

The frequency of the experience of growth accompanied by rising inequality over the last couple of decades would naturally reduce any confidence that growth can be relied on to lower income poverty as systematically as it did previously. Further, if relative income is a direct determinant of people's welfare—as well as an indirect determinant through its impact on the share below any absolute poverty line—then the import of increases in inequality is much more serious.

Definition, measurement and research resources as impediments to better understanding of the links between globalization, liberalization, inequality and poverty

By far, the greater data and definitional problems plaguing attempts to sort out the impacts of G&L on inequality and poverty relate to the inequality/poverty side of things, although satisfactory indicators of the level of globalization and of liberalization do present significant challenges as well.[5] Among the analysts working in this area and especially in organizing statistical information, the various agencies of the United Nations have been relatively active. The positive side to the story is that over the last 40 years there has been an explosion of useful data on inequality and of analyses using that data. Much more is known about levels and correlates of inequality and about trends in poverty than was the case in 1960. The negative side is that because the task of sorting out the causal links from economic policy to inequality and poverty is a very challenging one, we still have relatively little additional understanding of the sort that would be useful to policy makers interested in speeding improvements in these areas.[6] The factors that have limited the advance on this front fall into several categories.

- In spite of the great increase in statistical information since a few decades ago, what is available now still suffers from many quality weaknesses and outright gaps. In the former category is the still nearly universal lack of reliable data on capital incomes; in the latter the general lack of or weak quality of data on rural incomes.
- Much of the in-depth analysis of inequality—its trends, its determinants, the impact of policy instruments—requires very careful and experienced researchers, of whom there are few around the world relative to the analytical challenge faced. A reasonable guess might be that to put policy makers in a fairly informed position would require 10 times as much high quality research input as now occurs.[7] The needed cadre of researchers should involve many who are full-time or majority-time involved in this sort of work.

---

[4] The history of ideas about poverty and its relationship to growth, as well as many issues relating to poverty policy, are reviewed in Lipton and Ravallion (1995).

[5] Pritchett (1996a) pointed out that alternative measures of openness used in the literature are not highly correlated with each other. The popular measure introduced by Sachs and Warner (1995) is judged by Harrison and Hanson (1999:152) to be "significantly flawed" since it fails to establish a link between more open trade policy and long-run growth.

[6] It did not require much analysis to conclude that a more even distribution of key assets like land (in agricultural societies) and education (in modern ones) would have a significant impact on the level of inequality. It is in moving beyond the obvious that progress has been slow.

[7] An interesting item of evidence on this point involves an attempt in the World Bank as of the mid-1970s to take into account the distributional impact of projects. Given the number and scope of projects, this implied that most people addressing the issue could not have any serious experience with such analysis, nor be in a position to dedicate a significant amount of time to it. The predictable result was that the "distributional assessments" were quite superficial, and quickly came to be treated as bureaucratic rather than real requirements of project analysis.

- As in all areas of research, a significant share of the work has been undertaken by individuals and/or in institutions with fairly strong theory-based or ideology-based expectations with respect to the relationships under investigation. Such biases, together with the woeful lack of critique of most studies in this area—related, inter alia, to the lack of specialists—mean that many studies never get above a low to mediocre quality level, making some of them potentially quite misleading to users.
- Because both the dearth of information and the lack of skilled researchers are usually more critical in the poorer, more rural countries, it is in those parts of the world where it might be most important to understand the causal mechanisms that such understanding is weakest.
- Although social scientists other than economists—especially sociologists and psychologists—have long emphasized that people's feelings of deprivation are very much related to relative income/purchasing power and the feelings of inferiority that arise under those circumstances, especially in competitive societies where people are judged by their relative success, this perspective has not been incorporated seriously either into the systematic measurement of poverty or into the analysis of the determinants of poverty. As discussed below, there has been no general trend toward greater equality in intracountry income or expenditure distribution over the last half-century, and recently a disproportionate share of countries have suffered the opposite pattern. It follows that a poverty indicator that gives a high weight to relative income will show little if any progress over time, especially during the last couple of decades. Thus, the widely differing implications of alternative poverty indicators that have been suggested imply an urgent need for more serious attention to determine which of these are more meaningful and perhaps to identify some intellectually defensible combination that would give appropriate attention to each of the determinants of deprivation and satisfaction as experienced by individuals. Most of the indicators used by economists are naive in their implicit assumptions about the sources of individual feelings of deprivation, but thus far little attempt has been made to refine the indicators compiled by international agencies and by most economic researchers.
- One of the more notable complexities still to be effectively dealt with is the sorting out of intrafamily inequalities and the way they may have been changing over time. If rising incomes, urbanization and other processes of development have typically brought with them advances in intrafamily equality between the sexes or among age groups, then one would conclude that the correctly measured distribution of expenditure among persons has evolved more positively than the standard estimates, which assume away intrafamily inequality.[8] How the distribution of subjective welfare has evolved is less clear; if for example, women's expectations have evolved more rapidly than has their relative position, then subjective welfare distribution might move in the opposite direction from that of expenditures.

Pre-Reform Thinking and Predictions

Prior to the implementation of the liberalizing reforms and the current wave of globalization, the discussion of their expected impact was primarily theoretical in nature. In many countries, especially those of Latin America, the reforms took place in the context of the debt crisis that came after several decades of import substituting industrialization, so it was natural that some observers would place much of the blame for the economic slowdown on the defects of that model. From the standard approach to development policy in most of the developing world, it quickly became the culprit for many ills. This intellectual transition had many of the characteristics of a paradigm shift as identified by Kuhn (1962).

[8] Haddad and Kanbur (1993) show that the failure to take account of intrafamily inequality is unlikely to have much impact on most measures of income or consumption inequality. But if aspects of deprivation that are not captured by these two variables are important, this conclusion could be reversed.

Support for the new view had three bases: empirical, theoretical and ideological. Since there had been very few recent episodes in any part of the world of free or near free trade or of highly liberalized markets, the ex post empirical evidence on their effects was limited. On the trade front, the records of Chile since the mid-1970s or perhaps of the city-states Hong Kong and Singapore could be drawn on. The export orientation of the other East Asian tigers was sometimes improperly treated as a "free trade" case. A wealth of empirical analysis had, however, shown positive correlations between either level or growth of exports and overall economic growth, and though there were caveats, these studies were interpreted by many as strong support for free trade.[9] On the theoretical front, little attention was given to the infant industry argument, probably the strongest theoretical case for protection, and much to the simple free trade model. Powerful economic interests were pushing for free trade to acquire unfettered entry into developing world markets, and the ideologues of free trade pushed that way. Given the sparseness of useful empirical evidence in favour of free trade for the developing world as a whole, it was a natural time for ideology and cheerleading to play a big role. As Stallings (2000:2) notes, a principle frequently violated in the pre-reform discourse was to obtain the necessary information and engage in the necessary analysis before making irreversible policy conclusions. So it is not surprising that "many of the predictions turned out to be erroneous".

Though the reform package had a number of key elements, the bulk of the discussion revolved around the need to shift toward freer trade. On this point the intellectual foundations were laid down by the Little et al. (1970) project and by the later Krueger-Bhagwati National Bureau of Economic Research (NBER) project (Krueger 1978; Bhagwati 1978) and the parallel project by Balassa and Associates (Balassa et al. 1971), culminating in Balassa et al. (1986), a coherent articulation of the new orthodoxy. All were multicountry analyses of the relationship between trade policy and economic performance. Their pro-trade conclusions and the similarly market-friendly arguments in other policy areas were eventually codified in the Washington consensus, the shared view of the World Bank, the International Monetary Fund (IMF) and the US government with respect to appropriate development policy in the developing world. Williamson (1990a, 1990b) gave the body of thought a practical form and has since reformulated it in response to criticism. The pro-market feature of these views was further strengthened by the demise of the Soviet Union and the economic slowdown of Japan in the 1990s.

Expectations on the distribution and employment fronts

Although the Washington consensus itself did not focus on distribution and employment issues, there seemed to be a widespread optimism among those of its proponents who did address this matter that more market-based policies would yield better outcomes. Growing concerns about the adequacy of employment generation had been a major concern of the 1970s, when the International Labour Organization's (ILO) World Employment Programme undertook a series of country analyses focusing on how the employment challenge might best be dealt with. Inequality was recognized as being extremely high in many countries, especially those of Latin America. For the latter region, some sources[10] have suggested that there was a period of stability or even declining inequality for a period before the 1980s, though Altimir (1996) opined that there had been an upward trend in inequality during the long period of import substituting industrialization (ISI).

A number of proponents of the new model anticipated that distributional benefits would accompany the expected gains on the growth front. Among those clearly predicting a positive

9 Probably the main arguments not adequately dealt with in this literature were: (i) the direction of causation issue—do exports cause growth or is it equally likely to be growth that contributes to better export performance; (ii) the possibility that more trade might be beneficial up to a point but not beyond that point, with the empirical observations tending to fall in the former range; and (iii) the possibility that although freer trade would be good for a single country, other things held constant, if all developing countries move that way at the same time they will not gain as a group or might lose—the fallacy of composition problem. All of these issues have of course been raised, but none were recognized as important possible limitations in the bulk of that literature, or in the strong conclusions to which it contributed.

10 International Development Bank 1998; Londoño 1997; Berry 1997.

distributional impact were Balassa et al. (1986:93–94) and Krueger (1983:186–187). Williamson (1990a:413–414) excluded this area from the Washington consensus on the grounds that Washington at that time had no particular interest in the equity question.

The hopes for positive distributional outcomes were based on several arguments. One was that under freer trade the demand for labour would rise as factor endowments of the developing countries were allowed to show through in the composition of their production of tradables.[11] Another was that the removal of policy biases against agriculture would lead to accelerated growth there, helping to raise incomes for many of the developing world's poorest people. Proponents like Balassa et al. (1986:94), who expected the reforms to help small firms, stated, "The proposed reforms will be of special benefit to small and medium-sized businesses, which have particularly suffered the consequences of high protection, the lack of imported inputs and price controls. At the same time, such businesses provide a large potential source of employment creation in Latin America".

Weller (2001:13) notes that, "With the resurgence of neoclassical theory, it was argued that the region's labour problems originated in distortions of the factor and goods markets". Their elimination would, by generating faster growth, lead to higher levels of employment and better wages, especially helpful to those with low levels of education. So, the most important reforms would be those to the trade and financial systems, elimination of urban bias and so on. Only in the 1990s was increased emphasis placed on labour market reform geared toward greater flexibility.

The current institutional and popular discussion and the main participants

By now there is some empirical evidence to go on, though it remains very hard to understand the causation involved. The number of studies that meet the high standards necessary to provide persuasive results is small, arguably zero at this time, even though some are valuable and impressive, given the data and methodological limitations to which they have unavoidably been subject.

The disappointed expectations and resulting policy reformulations

The introduction of market-friendly policy changes seems to have been followed by accelerated growth in some countries, but in others performance remains inferior to what was achieved under the ISI model. In Latin America, in particular, postreform growth, around 3 per cent per year in the 1990s, has been well below the 5.5 per cent of the postwar ISI period of 1945–1980. On the distribution front, no general pattern of rising absolute and relative wages of the unskilled, of gains by the lower-income agricultural workers—small farmers and paid labourers—or of narrowing income and productivity gaps between small firms and larger ones has appeared. Here too, the short-run outcomes have been, more often than not, the opposite of the proponents' expectations. In short, economic performance has left a good deal to be desired, especially with respect to labour market outcomes[12] and has not, by any means, provided a quick and simple confirmation of the wisdom of the policy change.

The East Asian story differs in a number of important respects. That region's selective import substitution was coupled with strong incentives to export and produced even faster growth than did Latin America's, and there was no "lost decade" as in the latter region. Unlike Latin America, there was no rush to institute reforms. Growth rose in some countries and fell in others, but on average remained rapid. But here too, there seems to have been a trend toward a greater frequency of rising inequality than before. Sub-Saharan Africa's growth, low even in the 1970s at an average of 3.3 per cent per year, slipped further to 2.0 per cent in the 1980s and

[11] See, especially, Krueger (1988).

[12] Re Latin America, see ECLAC (1997) and Lora and Olivera (1998) with an Inter-American Development Bank (IDB) point of view, though ILO (OIT 1996) finds labour market performance between the late 1980s and the mid-1990s more favourable in countries that applied the economic reforms early than in those that did so later (Weller 2001:14).

failed to recover in the 1990s. Distribution trends are less clear in this part of the world due to data deficiencies. South Asia's growth—dominated by the figures from India—improved in the 1980s, before the major reforms, and held constant at a little over 5.5 per cent in the 1990s. Some analysts have argued that inequality rose in the 1990s, others have disputed this (Berry and Serieux 2002).

The failure of the reforms to live up to expectations, especially noted in Latin America, led to a series of reformulations in the interpretation of the context and to modifications of some policy recommendations. The spotty record has also contributed, along with other factors, to the very widespread negative reaction to globalization and the liberalization policies.

In describing the points of view that are and have been expressed on the issues under discussion here, it is worth distinguishing at least three types of participants: (i) the researchers/students of these issues, in particular the more serious ones, whose identification and singling out from the rest is naturally controversial; (ii) the institutions that take part; and (iii) the interested public. The last group has, by definition—that is, by the fact of not being researchers/students—the disadvantage of a lack of detailed understanding of the issues. Those who fall in this category base their views on some combination of intuition, trust in others who opine—perhaps journalists, pundits, researchers, or institutions—and other factors. As is to be expected, many of these views sound and are, to some degree, simplistic to people closer to the evidence. At the other extreme, the researchers/students have the best chance to get to the bottom of things. Given the complexity of the issues, as well as differences in research methodologies and in expectations related to different ideologies and so on, the members of this group often have widely varying views; it is important to understand the sources of that variance, and in particular when it is related to quality of analysis—including the intellectual honesty of those involved—and when to prior expectations/ideology.

The institutions tend to manifest different characteristics again. Many have views that reflect their "group's" view of economic issues more generally; thus business associations tend to have different interpretations on many issues than do unions. Relevant international institutions like the World Bank and the ILO also tend to have "institutional" views, though these are not as systematic, stable or predictable as those of interest groups. This is partly because most of them engage in research themselves or sponsor it, and thus have within them something of the range of professional views that is natural to a group of individual researchers. Their institutional view tends to be some amalgam of what their own researchers throw up in the way of ideas, an inertia reflecting the costs of change and of any apparent inconsistency of views over time, and the vested interests of the groups or countries that most influence them.[13] These institutional views tend to be stated in "policy positions" and the like, which must pass through a screening process before seeing the light of day, one of the reasons why they change only slowly. They also tend to be on the simplistic side, partly because they do not so much try to take account of all of the known evidence on an issue as to effect some sort of encompassing compromise among the views—or prejudices—of the powers that be within them or to whom they are beholden, and also because simple views tend to sell better to those whose support is sought but who are not close to the issues nor aware of their subtleties. Policy recommendations tend to be kept simple—the "cookie-cutter approach"—which eschews the potential for fitting them closely to the specific characteristics of each country, because complex instructions cannot be given to field and junior line staff. If those instructions are not straightforward, then the staff will become confused and the recommendations chaotic.[14]

---

[13] In the case of IMF and the World Bank, the main industrial countries—dominated by the United States—constitute the power behind the scenes since they are the source of resources for these institutions. Trends in policy views within these institutions tend to reflect those within the United States (Pauly 2002). The resignation of Ravi Kanbur as lead analyst in the preparation of the *World Development Report 2000/2001* on poverty was alleged to be in part the result of a conflict over the acceptable degree of oversight by a US government official.

[14] This point was made to me by Gerry Helleiner. It is reminiscent of the view that the success of the British Empire lay in just seven ideas; the genius of the system was that all operatives had the same seven ideas and no more were needed (Barzini 1983).

Each of the major international institutions has high quality researchers, whose views would not be expected to agree totally with the "institutional" view on any particular issue. At times the dissonance between more prominent researchers and the official view can be marked. Given these various considerations, it would of course be inappropriate to speak of, say, an ILO view on an issue as if everyone who worked at ILO would hold that view. The fact of being serious centres of research and having serious researchers means, by definition, that views differ.

Current popular discussion on economic policy includes little challenge to the claimed superiority of market mechanisms. The recent near-consensus on there being no alternative to market-driven growth[15] accepts that better state regulation must complement and govern market mechanisms but always leaves those mechanisms centre stage in discussions of how best to reduce poverty.[16] Thus, people like Williamson note that now it is less a matter of cutting back than of making the state more effective. Joseph Stiglitz, until recently chief economist at the World Bank, stresses a more activist role, a shift from the earlier Washington-style reforms that focused on stability and adjustment and on "government failures" as the cause of inflation and allocative inefficiencies. Heightened interest has been given to the role of human capital, partly because its importance is highlighted by endogenous growth theories. There is greater recognition that education and health cannot be financed solely through market mechanisms (IDB 1996). It is now more widely accepted that reform-based growth could widen wage differentials at first even if in the long run it does promote higher wages (Edwards 1995; Morley 1994). The World Bank's recent report on the role of institutions symbolizes this new direction (World Bank 1998). The emerging dominant view thus draws back from the expectations associated with the first wave of reforms—that they would both raise growth rates and significantly reduce poverty and inequality. It accepts that in many countries this has not happened and that where poverty reduction has occurred, it is more often due not to the trade and financial reforms but to lower inflation and the modest growth which has taken place.[17] The challenge of how to increase employment and raise wages, especially for unskilled labour, is now widely understood against a background acceptance that trade liberalization and growing integration into the world economy initially increase inequality by enhancing opportunities and increasing returns for skilled workers (IDB 1996:244). Theories that envision the possibility of multiple long-term equilibria and illustrate how high inequality may stall growth now receive more attention. The earlier Economic Commission for Latin America and the Caribbean (ECLAC) neostructuralist analyses for Latin America long ago insisted that inequality constrains rapid growth (Sunkel and Zuleta 1990), so there is now some convergence between the old and the new in this area.

The United Nations agency most focused on trade issues, the United Nations Conference on Trade and Development (UNCTAD), has weighed in on various issues related to the impacts of G&L, primarily through its publication, *Trade and Development Report 1997: Globalization, Distribution and Growth*, a valuable document that draws exhaustively on the available relevant literature. It notes the co-existence, since the early 1980s, of the G&L processes with slow growth and rising inequality in the world economy (UNCTAD 1997:iv), delves into the factors underlying this combination and warns that "evidence is mounting that slow growth and rising inequalities are becoming more permanent features" (UNCTAD 1997:v) and that rising inequality could create a backlash that may threaten some of the benefits of the recent economic reforms. It emphasizes both the rising gap between skilled and less skilled wage earners in the developing world and the rising profit share. It advocates more serious and detailed analysis of "convergence".

---

[15] This paragraph draws heavily on Korzeniewicz and Smith (2000:23–26).

[16] See, for example, Birdsall et al. (1997) on the contrast between East Asia and Latin America; they argue that the former have relied on increasing opportunities as the route to poverty alleviation whereas the latter have focused more on transfers. For a useful general statement falling within the category of "revised consensus thinking", see Birdsall and de la Torre (2001) and Burki and Perry (1997).

[17] On the poverty-reducing merits of curtailing inflation, this new view appears to be less than firmly based on the evidence. More generally it is likely that any new consensus, fairly quickly reached, will, like the previous one, contain a number of errors, since the analysis that would be needed to give it real solidity is not there.

> If speculative talk about converging incomes and living standards is to cede place to a realistic policy agenda, it is necessary to have a firm grasp of what drives economic growth in a market economy (UNCTAD 1997:vii).[18]
>
> The good news, however, is that where convergence has occurred, there are by now clear explanations for it in terms of the development strategy pursued (UNCTAD 1997:vii).

As advocate of the developing countries, it notes that

> among the asymmetries of globalization is the fact that liberalization of the world economy has proceeded so far in a lopsided way that tends to prejudice the growth prospects of developing countries by discriminating against areas in which they can achieve comparative advantage (UNCTAD 1997:vii).

The currently growing emphasis on growth with equity to some extent echoes the challenge that arose 30 or so years ago to the then-popular view of "growth first, then redistribution". The trajectory of views within the World Bank, the most powerful of the international financial institutions (IFIs) in terms of its impact on development policy, is of special interest. There the issue surfaced during the administration of Robert S. McNamara, as the idea of an inevitable trade-off between growth and equity was rebutted (Kapur et al. 1997:16). There was an increased focus on poverty and human needs, especially in rural areas, and an emphasis on the need for more effective institutions. But that earlier push toward equity met obstacles, including the growing prevalence of authoritarian regimes in the developing world, the lack of World Bank leverage due to the surging private capital flows, the weak commitment of bank staff to McNamara's agenda, a lack of links to local political actors or grassroots social movements, perhaps also the lack of a clear and generally accepted theoretical framework and of a strong base of knowledge about links between growth, poverty and inequality. McNamara's agenda rapidly slipped when Alden W. Clausen took over the presidency of the World Bank (Kapur et al. 1997:331). Then came the Thatcher-Reagan era in politics, the neoliberal revolution in economics, a reading of the East Asian success stories favourable to neoliberal thinking and Anne Krueger's replacement of much of the staff in the World Bank (Kapur et al. 1997:22).[19]

After regaining some emphasis under Barber B. Conable and Lewis T. Preston, by 1991 poverty was being touted as the World Bank's priority objective. The original introduction of the poverty goal had not been completely eliminated even under Clausen and Krueger,[20] and it regained emphasis in the 1980s and 1990s, helped along by pressure from non-governmental organizations (NGOs) with influence on public opinion, and in other ways. Together with several international agencies such as the United Nations Children's Fund (UNICEF) and the United Nations Development Programme (UNDP), NGOs constituted a substantial outside pressure on the World Bank, leading Kapur, Lewis and Webb (Kapur et al. 1997) to conclude that the attention to poverty at this time was more externally based than had been the case in the 1970s.

Many of the shifts on policy and in "consensus" views of the sort described above have been based more on intuition, ideology and "common sense" than on careful sifting of the evidence. This has contributed to a tendency to go too far, as illustrated by the near elimination of government as an actor in the idealized development process, to the point where it was necessary to "bring it back in". Policy prescriptions on privatization are often correspondingly

---

[18] UNCTAD's evident impatience with the "talk of convergence" is understandable. Probably the burst of theoretical writing on that topic was damaging to realistic appraisals of what might transpire in the wake of the G&L processes, since it contributed to excessive optimism, while probably persuading some people that theory created a stronger presumption in this direction than in fact it does and discouraging the sort of in-depth analysis needed to ascertain when and where that pattern is most likely to occur.

[19] Anne Krueger was Vice-President at the World Bank during Clausen's presidency.

[20] As Kapur et al. (1997:367) note with respect to the period after McNamara's departure, "though poverty lending was delayed, constrained, and later disowned by many in the Bank, the cause may have been given a lasting boost because taboos were broken, concepts changed and a new generation of staff members—more open to the poverty goal—was inserted into the Bank's staffing pipeline".

automatic, with little attention to the serious literature in this area—some of it from the World Bank. Current views are probably less simplistic than those of the "consensus" phase because they are less extreme, but it remains to be seen whether they are any better-grounded in careful thought and analysis. The high expectations for Social Funds, microcredit, and market-friendly land reform and the miracles of information technology—with the filling of "digital divide"—have yet to be subjected to the serious critique that any new policy instruments need. The continuing lack of serious analysis and criticism means that we are too often in the hands of extremists and simplistic "vision" people.

There has been a partial convergence of views on some aspects of economic policy among the various United Nations and other agencies, probably due mainly to a true convergence of views and perhaps partly to opponents of a ruling orthodoxy not wanting to appear too far out of line with it. The dangers of very loose monetary and fiscal policy are generally accepted, though the merits of really low inflation seem to be quite exaggerated. The merits of export support are widely recognized, at least as long as the elasticity of demand for the products is not too low, while that of zero protection for import competing sectors is still under debate.

The labour policy area illustrates the differences across institutions. Many ILO documents over the years have been criticized for presuming the same setting in developing as in developed countries and for assuming that unions and strong institutions to protect formal sector workers are desirable, without a great deal of attention to their possible distorting impacts. That view is now much more nuanced; the real dangers from very strong unions and work regulations have long been recognized in some ILO studies—for example, the World Employment Programme studies beginning in the 1960s. But ILO positions still tend to differ significantly from the line taken most frequently over the last decade or so by the World Bank, which advocates labour market flexibility through curtailing distortions and union power.[21] ECLAC (2000:138–150; and citing World Bank 1995 and OIT 1999) presents a balanced view that recognizes the possible distortion costs of problems in the labour market while emphasizing the promotion of social dialogue along with flexibility, retraining, minimum wages, unemployment insurance and profit sharing to improve incentives and reduce the fixed costs of hiring labour.

At present, several sets of proposals recommend further reforms, usually involving a deepening of the first-generation reforms complemented by a second generation. A recent ECLAC study fits this mould. Stallings and Peres (2000) feel that the majority of the first-generation potential benefits have already materialized except in those countries where the reforms came late, and that deepening would lead to decreasing returns—or no returns at all. Their agenda for another round of reforms includes competitiveness policies and investment promotion, investment in the social area, and maintaining and improving macroeconomic stability. A cross-cutting need is better public sector–private sector co-ordination to deal with external vulnerability.

Special features and limitations of United Nations institutions' research

The evolution of views espoused by the main international institutions—not to imply of course that everyone in any of these institutions shares those or any other views—has included a warming to market-based policies and an increasing concern with distribution/poverty. Some of the institutions have become major actors in the research area, evolving from users of others' work to generators of their own. The World Bank, especially, has greatly increased its activity over the last 30 years. Other United Nations institutions actively involved in the poverty/distribution policy area have been ECLAC, ILO, UNCTAD, UNDP and the United Nations Research Institute for Social Development (UNRISD). Given the severity of income inequalities in Latin America, that region's development bank—the Inter-American Development Bank (IDB)—has over the last decade also dedicated considerable attention to the inequality challenge (IDB 1998). The IMF has generally limited its research efforts and policy pronouncements to the areas closest to its own responsibilities, balance of payments

[21] The importance of highly flexible labour markets, claimed in much recent literature, has yet to be seriously demonstrated.

management and structural adjustment policies. In the last few years, however, the IMF has recognized the importance of poverty reduction in its official statements and in a few publications and has developed a Poverty Reduction and Growth Facility (formerly Enhanced Structural Adjustment Facility/ESAF) and supported the development of Poverty Reduction Strategy Papers (PRSPs) as a tool to improve the design and effectiveness of policy against poverty. This latter instrument is still relatively new, so any judgment of its potential would be premature at this time.[22] Though it has not yet developed any significant research capacity on poverty, this has not precluded some firm statements on how best to reduce that malady.[23] The relevance of the IMF and the policies it influences to issues of inequality may be much greater than previously assumed if it is true, as argued by Cornia and Court (2001:18), "findings...suggest that liberalization of the domestic and international financial system has caused an increase in income inequality much greater than that caused by other policy changes such as trade and labour market liberalization and privatization".

Most United Nations institutions can be characterized as systematic supporters of certain policies, while at the same time being open to alternatives in other policy areas and on how best to execute favoured policies. When an institution has made up its mind on a given policy, for whatever reason, it is less likely to undertake research into the desirability of that policy; whatever work appears to fall in that category is more likely to be designed to shore up the official position in debates with others, that is, to "look for" evidence in support of the accepted position. On matters where no official or systematic view exists, the research is more likely to be undertaken in order to learn.

Not surprisingly therefore, the organizations that have staked strong institutional positions on globalization and the associated liberalizing reforms have not directed much, if any, research effort at the questions of whether the reforms themselves have been a positive factor, but rather on how to refine and improve the functioning of the new model. More generally, most recent research related to G&L accepts the policy trends as either inevitable or desirable—in either case a given for the analysis—and attempts to understand why outcomes have fallen short of the desirable and what can be done about this, policy-wise.

Based on this broad generalization it would appear that Washington consensus institutions like the World Bank will not be open to a very wide range of views on the role of free trade, privatization, labour market imperfections, capital controls and so on, in the design of policies to reduce inequality and poverty.[24] But the World Bank has over time come to worry seriously about inequality, so its self-defined task is to identify poverty-reducing policies that are also market-friendly. Meanwhile, the other members of the United Nations group—ECLAC, ILO, UNCTAD, UNDP and UNRISD—have focused much more on issues of equity and accordingly have adopted different stances from IFIs on a number of issues. On average, the sources to which the different institutions give greatest credence vary across the spectrum of views, with IFIs giving greater weight to more neoliberal authors and the other United Nations agencies greater weight to authors who do not fall into that category.

The aforementioned rigidity of thought on the part of the IFIs has had a considerably negative effect on the sorting out of what really works and what does not, both on the growth and on the distributional fronts. The World Bank in particular controls a high share of research resources and has on occasion repressed competing internal views, as with the interesting case of

---

[22] UNCTAD's 2002 report on the least developed countries (UNCTAD 2002) argues that, though the terminology is altered from the past, the policy advice has not changed much. It is possible that change will increase with time.

[23] Thus Gordon Brown, Monetary and Financial Committee Chair, in response to a question with respect to protests in Washington, in April 2000, said that, "the way forward for those who want to reduce poverty and see greater stability in the world and diffusion of prosperity around the world is not to advocate turning our backs on the global economy and retreating from international economic co-operation. The way forward is through strengthened international economic co-operation that we are now proposing with reforms in the international financial architecture. This is the best way to tackle poverty and injustices" (IMF 2000:117).

[24] Joseph Stiglitz's critiques (2002), while obviously important, are unusual, even for someone no longer in the employ of the institution.

agricultural mechanization in the 1970s.[25] Where inequality went with inefficiency due to a market imperfection, as with agricultural mechanization—whose effects are influenced by imperfections in all of the capital, labour and land markets—the World Bank would ultimately come to a more informed view. But if lower inequality comes at the expense of property rights—as with traditional land reform through expropriation—or of economic efficiency as traditionally defined, this then creates a dilemma for the World Bank. Somewhat later, as investment in education, especially primary, became a strong element of the World Bank's development recipe, a similar rigidity grew up. An excessively simple and neoclassical interpretation of the evidence on the economic payoff to education came to dominate. Only more than a decade later did a World Bank researcher call attention to apparent inconsistencies between that view and the empirical evidence on the growth impact of education (Pritchett 1996b). Educational policy has been less central to the World Bank's policy recommendations over the last couple of decades than have the market-oriented reforms, including freer trade. It would be a bigger institutional challenge to the World Bank to alter its views substantially in these areas should the empirical evidence eventually call for such a modification.

With hindsight—and sometimes without it—it is possible to detect many errors of fact and of analysis in the work of most of the institutions mentioned here. This is hardly surprising given their large output and the wide range of issues they deal with, the varying quality of researchers or summarizers on which each draws, and the limited time which they sometimes can dedicate to specific research and writing tasks. Both time constraints and ideological leanings probably contribute to the fact that most output is not subjected to a great deal of critical review, especially from specialists who do not share the leanings of the institution. The marketplace of ideas does sort out some of the differences. Thus, World Bank views have moved on a good number of points over the years. UNDP, whose 1999 report accepted that world inequality was rising significantly, has subsequently drawn back from that claim. Unfolding events, of course, also force changes of views; however optimistic the expectations that G&L would lead to a decrease in inequality in countries and in the world, the evidence has persuaded nearly everyone that the outcome—at least in the former respect—has been very different. Optimists can and do retain the view that the long run will be different from the short, but their interpretations of the world have to become more complicated. On the issue of the impacts of G&L on inequality, however, it would seem unlikely that any meeting of minds will occur in the foreseeable future. The fact that the issue is a complicated one, on which it is inevitable that the conclusions of some plausible looking research will point in one direction and those of other plausible looking research in the opposite direction, makes it very easy for each side of a debate to find decent "ammunition". Even among ideologically neutral and very competent researchers it may take a long time for a comprehensive consensus to develop, if it ever does. What might more realistically be hoped for is a near-consensus among such people on at least some elements of the broad set of relationships between G&L and inequality.

The combination of some degree of ideological bias on issues close to the heart of the current conventional wisdom on economic policy, together with the serious deficit in total research on inequality and poverty—by institutions like the World Bank and by everyone else—creates a number of dangers. The most obvious is that good policies will not be well or quickly identified and pursued. Perhaps as serious is the tendency to grasp at anything that sounds plausible as an antidote to inequality. The view that microenterprise can be the motor for growth if only it can be relieved of bureaucratic repression may well exemplify this sort of danger.[26] A natural tendency is to search for policy responses to the inequality and poverty problems that do not interfere with the basic—growth or efficiency-oriented—package. Thus, the components of that

[25] The World Bank had been making agricultural mechanization loans whose natural beneficiaries were large farms. A competent analysis of the impact of such credit in Pakistan, which pointed to its effect of displacing tenant farmers from the large properties, was archived for a year or two before surfacing and eventually affecting World Bank thinking. At the time, most World Bank personnel working with the agricultural sector seemed not to be aware of the mounting evidence on the relative efficiency of small farms, though this weakness was at least partially rectified in the course of the 1970s.

[26] This is not to say that support for microenterprise is not a promising component of the anti-poverty policy package, but rather that only with further research can it be established under what conditions this sector can make a real contribution and how big that contribution may become.

package have not been sufficiently re-examined with a view to better understanding their distributional implications. For example, the possibility—or perhaps likelihood—that a significant level of inflation may be required to facilitate efficient allocation of labour, by allowing real wage decreases to occur more easily in certain sectors and/or activities, has received little attention. Low inflation is generally accepted as one of the basic elements of "good" economic policy.[27] Probably the greatest weakness cum bias in the body of research relating international trade to growth—and perhaps to inequality though this is less clear—is the failure, both in the original Washington consensus package of ideas and in the general policy discussion, to recognize the pivotal role of the exchange rate, in particular the real exchange rate, as a determinant of trade, growth, labour allocations and other outcome variables.[28] Both misaligned and volatile real exchange rates have been shown to have heavy costs for economic performance. The payoff to increased integration into world capital markets has been greatly reduced—and sometimes turned into a loss—through the impact of those movements on the real exchange rate and the resulting disruption of the domestic economy. Clearly there has been a serious imbalance in the thought given to trade policy as opposed to exchange rate policy, with comparably serious effects on the quality of economic policy and on the resulting economic performance of many developing countries.

Institutional contributions through data collection and dissemination, and through a general emphasis on the poverty challenge

Though progress toward achieving the needed level of understanding on matters of inequality has been discouragingly slow, and it might have been hoped that the international institutions could have launched a more concerted and effective effort in that direction, several of them do deserve credit for taking the issue of distribution seriously and making investments in data and in skills that will continue to pay off well into the future.

The World Bank was relatively early in beginning to assign weight to issues of inequality, an attention that was signalled by the publication of the volume *Redistribution with Growth* (Chenery et al. 1974). This focus waned during the Clausen-Krueger period but was revived by the 1990s. Over the last quarter-century, the World Bank has made important contributions by sponsoring periodic and comparable Living Standards Measurement Surveys (LSMS) in a good number of developing countries, especially in those where data on distribution were sparse or non-existent. In recent years, the World Bank has made its databases increasingly available to interested users, a valuable service given the public good nature of this research resource. Various World Bank publications summarize a wide variety of data on social issues generally, including income distribution and poverty.

The World Bank's most recent compilation of distribution data from around the world (Deininger and Squire 1996) helps users to distinguish between data of higher and of lower quality. More recently, the World Institute for Development Economics Research (WIDER) has made available another such compilation. Significant as these contributions have been, it remains unfortunately the case that such compilations only take us a fairly short way toward the goal of having a cross-country data set whose reliability for each country, and comparability across countries and over time in each country, would provide a solid base for the sort of hypothesis-testing on determinants and effects of inequality that many researchers have been doing and would like to do, with attendant risks. The main and final obstacle to achieving such a data set is that the national data for all developing countries suffer various and usually serious defects and sources of non-comparability. Creating the needed set would inevitably involve a good deal of intensive work at the country level, together with careful checking for differences in biases across countries. Such an effort would require many skilled researchers over a significant period of time in order to make the quantum quality leap that is needed in order to expand the range of issues that can be safely dealt with by cross-country analysis. Until that

---

[27] This new conventional wisdom is somewhat reminiscent of an orthodoxy of the 1970s that higher interest rates were pivotal to raising savings, a view taken as gospel until the ambiguity of the empirical evidence became too obvious.

[28] I am indebted to Gerry Helleiner for this point.

time, the results of research using cross-country data sets on inequality should be viewed with great caution unless the author makes a persuasive case that comparability across the countries selected is indeed adequate to the specific issue being studied, for example, through appropriate sensitivity analysis.

Beginning in the 1980s, ECLAC made an important contribution to analysis of inequality in Latin America with its series of papers *Antecedentes de la Distribución del Ingreso*, each of which provided a critical review of the household surveys undertaken in a given country over a selected period of time, including estimates of the completeness of income reporting based on comparisons with the national accounts-based estimates of personal income.[29] On the basis of this effort, which he directed, Altimir (1987) suggested corrections to the original distributions available for several Latin American countries. Such country critiques are an essential element in the development of a high quality international data set, but appear not to have been undertaken systematically in any other part of the developing world. ECLAC publications now present a large amount of data on distribution by country, and that institution, like the World Bank, has itself carried out much valuable research. The recent discussion—for example, Ravallion (2001) of the World Bank—around the relative merits of national accounts statistics as opposed to household surveys as the better source of estimates of average income and consumption in a country, while it has initially produced a good deal of confusion, will ultimately be helpful in clarifying additional aspects of income and consumption reporting structure and the pitfalls that the user must be aware of.

IDB has recently provided assistance to countries of the region to improve their household surveys and thus strengthen the informational base on matters of inequality. It also initiated the development of a series of "reform indices", which were then further refined by ECLAC and used in the analysis of the impacts of G&L summarized by Stallings and Peres (2000).

UNDP, meanwhile, pioneered an important publication in this area, the *Human Development Report*, valuable to users for its broad compilation of data relevant to social and development issues and for its analyses of selected issues. Similarly, UNCTAD's *Trade and Development Report* and the *UNCTAD Review* have become useful tools for anyone interested in the role of trade in the developing world.

Many United Nations agencies have thus weighed in, either on the analysis of the determinants of inequality—including its links with G&L—or in helping to build a better base of information with which to undertake such studies, or both. These contributions are very valuable, but thus far not nearly adequate to resolve the most important puzzles, as explained below.

Concerns: What Has Happened to the Level of Inequality Since 1980

Introduction: Facts and points of dispute

The key points of agreement—or near agreement—among specialists:

- The level of inequality in many developing countries is extremely high, such as to naturally be viewed as a social problem and an object of policy with intent to try to lessen the problem.
- The level of world inequality, defined in terms of absolute purchasing power among persons, is rather higher than that of the most inegalitarian country and the bulk of that inequality comes from the intercountry inequality rather than that within countries.
- Although some economic mechanisms suggest that a considerable level of inequality may be a necessary condition for growth, this view has lost favour over

[29] An example is Economic Commission for Latin America and the Caribbean (CEPAL 1987).

the years; no general case to this effect receives much support from the evidence, although under certain circumstances the argument could be valid.

- World income and consumption inequality rose dramatically during the period from 1820—perhaps sooner but we know of no estimates prior to that year—until 1950,[30] but according to most of the more careful analyses[31] has not changed significantly over the last half-century.[32] While there is some disagreement on the latter point, it can be mainly traced to methodological points on which, in fact, the most careful students do not disagree—for example, the use of purchasing power parity (PPP) in conversion among currencies;[33] treatment of the individual person as the unit of analysis[34]—between country inequality, which has historically driven changes in world inequality so measured, has thus been relatively constant over a lengthy period.
- Although much interest naturally attaches to changes in national inequality, and significant changes have occurred during the last half-century in a few countries, the most striking general feature of country-level inequality is also its stability over time.
- Over approximately the last two decades, however, a widespread though far from universal pattern toward increases in national-level inequality is generally accepted to have occurred.[35]
- Presumably related to this, but how closely is not yet clear, is the heavy weight of job creation in the informal sector. In regions such as Latin America, given the disproportionate share of new jobs coming from the informal sector, it is probably surprising that national distributions have not worsened more and more frequently than they have during the 1990s.

The major points of disagreement and ongoing debate/discussion about the patterns of change involve:

- Trends in world poverty during the 1990s: some authors—for example, Bhalla (2001:153)—conclude that the downward trend of earlier decades has continued at more or less the same rate, while some—for example, Berry and Serieux (2002:table 8), when the poverty line is a relatively low one—judge that it has became considerably slower than before and others, including various World Bank studies—for example, Chen and Ravallion (2000)—believe that there was no decline in poverty at all in spite of the considerable growth,[36] and hence that 1990s (and 1980s) growth has been less healthy in some sense than was that of earlier periods.
- Related to these different views on poverty trends are modest differences in estimates of how world inequality has moved, especially over the 1990s (see below).

---

[30] This is according to most of the standard indicators (Bourguinon and Morrisson 2002:table 1). The Theil coefficient shows a different pattern over time, with the period of rapid change being 1820–1910, after which there was little change until 1980–1992 when another significant increase occurred according to this index but not according to the Gini coefficient, the mean log deviation or the standard deviation of logarithm.

[31] And those that treat the individual person as the unit of analysis and convert income and consumption levels between countries using purchasing power parity figures (PPP).

[32] Bourguinon and Morrisson 2002; Berry and Serieux 2002; Schultz 1998; Bhalla 2001.

[33] UNCTAD was one of the institutions, along with UNDP (1999) to report a major increase in inequality, with the Gini coefficient rising from 0.66 in 1965 to 0.74 in 1990 and the ratio of the richest quintile to the poorest rising dramatically from 31.1 to 60.1 (UNCTAD 1997:81). The report drew on Korzeniewicz and Moran (1997). The authors were aware that the choice between market exchange rate conversion and PPP conversion matters. They judged that the latter was the more appropriate way to gauge relative welfare conditions but followed Arrighi (1991) to the dubious conclusion that exchange rates provide a better "indicator of the command that different countries have over the human and natural resources".

[34] An exception is Milanovic (2002), who makes the case for the exclusive use of data from household surveys in estimates of world inequality and reports a sharp increase in that inequality between 1988 and 1993. As discussed elsewhere—for example, Berry and Serieux (2002) and Bhalla (2001)—the arguments for this approach do not appear to be persuasive.

[35] Though not everyone is persuaded that this is the case—for example, Deininger and Squire (1996) and Dollar (2001). Differences of opinion are not surprising given the uneven and on average low quality of the data in developing countries.

[36] For a detailed critique of the World Bank estimates, see Bhalla (2001).

- There is, unsurprisingly, disagreement with respect to distribution and poverty trends at the level of regions—especially sub-Saharan Africa—and countries, for many of which the data are clearly not of a quality that can sustain confident comparison over time. The ambiguities that exist at this level are not, however, either so frequent or so serious as to create much doubt about overall world trends, which are greatly influenced by China and India, or about whether intracountry trends have more frequently been toward equality or toward inequality.

When it comes to the causal processes connecting G&L and inequality and poverty, disagreement becomes the norm rather than the exception. This is not for lack of persuasive evidence on the correlates of inequality at the national level, with the most striking aspect being the usually large amount of income variance that is associated with differences in level of education. Other correlates such as region of the country in which the person lives, whether the person works in the formal or the informal sector, gender and—in the relatively few attempts made to measure it—ability, all have much less explanatory power than does level of education. The role of capital incomes is less understood than that of labour incomes and how they are determined, since the former are badly measured, with almost no exceptions in the developing world. It thus remains possible that differences in holdings of non-human capital explain a large amount of income variance but that the standard analysis does not reveal this due to the very incomplete and inaccurate coverage of those forms of capital.

Unfortunately, much higher quality data are required to identify trends in inequality than simply to get a reasonable reading of its approximate level; as a result there are few developing countries in which longer run trends are known with much certainty.[37] Where the true trends are very strongly in one or the other direction, the data probably pick them up; otherwise they may not. Causal analysis of a poorly measured dependent variable is naturally hazardous and the sources of inequality changes are correspondingly ill understood.

Particularly relevant to this paper is the fact that the period of G&L has been one of widespread increases in reported intracountry inequality, raising the possibility that G&L may be causally related to that deterioration. On the growth front also, it remains open to debate whether G&L have on average made a positive or a negative contribution thus far.

The world distribution of income and the level of world poverty

The huge gap between the world's rich and its poor has made trends in world inequality a matter of much interest. As noted above, that gap appears to have widened markedly during a period beginning in the early nineteenth century at the latest and continuing until around the middle of the twentieth. Since about 1950 it has been possible to follow the evolution of inequality with much more precision, given the availability of national accounts in all major countries and of intracountry inequality measures in an increasing share of them.[38] As noted above, there is something close to a consensus that there has been only modest change in world

[37] Uncertainty also surrounds the changes over time in other indicators or forms of inequality, including income better measured—for example, to include consumption of publicly provided goods—satisfaction of basic needs, health and life expectancy and, ultimately, satisfaction or welfare. But less attention has been given to these indicators, and hence much less disagreement about them has arisen.

[38] Given adequate national distribution data for a reasonably large set of countries, the main additional factor needed to undertake cross-country comparison and/or aggregation is appropriate assumptions about the relative value of the different currencies. The International Comparisons Project (ICP) conversion indices used here do not provide fully accurate translation of per capita income levels between countries; whereas use of nominal exchange rates tends to exaggerate income differences between richer and poorer countries, the ICP indices tend to understate them. Dowrick and Quiggin (1997) derive an alternative index—referred to as the Afriat real index—with desirable properties that in the context of the Organisation for Economic Co-operation and Development (OECD), implies that income convergence occurred between 1980 and 1990 whereas the ICP indices yielded no clear results. But Quiggin (2002) reported that the opposite appears to be true when a sample including poor countries is used, and that there is no general presumption that the use of this index would lead to more frequent findings of convergence. Dowrick and Akaml's (2001) conclusion that world inequality rose somewhat between 1980 and 1993 would be consistent with the hypothesis that the use of PPP conversion was creating a bias toward convergence. The key methodological decision around conversion of national currencies to a common base, however, is whether market exchange rates are used. When this approach is taken, world inequality clearly increases over the recent period, whereas when PPP conversion is used it does not—according to most studies. In its 1999 *Human Development Report*, UNDP used the former approach, following authors such as Korzeniewicz and Moran (1997).

inequality over the last half-century, at least compared to the dramatic increase over the previous 130 years. The two exceptions seem to be Milanovic (2002), who reports a significant increase in inequality over the short period 1988–1993, using exclusively household survey data, and Bhalla (2001:7), who reports a decrease from a peak Gini of 68.6 in 1980 to 66 at the end of the 1990s. I doubt the methodological validity of the former, while the change reported by Bhalla, even if valid, could hardly be considered a major deviation from the pattern of the previous few decades. To quote Berry and Serieux (2002:21–24):

> World inequality among persons fell during both the 1980s and the 1990s, according to all of our indicators—marginally according to some (including the Gini coefficient) and more markedly according to others (including the Theil coefficient). Income share was transferred from deciles seven to nine to the bottom six deciles and to the top one (see Table 1). This outcome can be seen as the net result of two offsetting trends: falling intercountry inequality and rising intracountry inequality in wealthier countries and some of the developing ones, most prominently China. In fact, the observed improvement in the distribution of world income can be attributed entirely to the fact that the lessening of income gaps between countries was more than enough to offset the rising inequality within countries. As a result, the world's poor were, generally speaking, substantially better off in 2000 than in 1980 and, accordingly, world poverty incidence continued its long downward trend. It is noteworthy, however, that the rate of poverty reduction was not uniform over the two decades. In the 1980s it was brisk, continuing the pattern of the 1960s and 1970s, as East and South Asia (the home of the majority of the world's poor) expanded at a significantly faster rate than the rest of the world. However, despite continued growth in these regions in the 1990s, increasing intracountry inequality (particularly in China and India) and the fact that most remaining poor had incomes well below the poverty line, combined with increasing poverty in Africa, led to a near cessation in the reduction of extreme poverty globally. Even taking the two decades as a whole, the net improvement in world income inequality and poverty was not broadly based, but rather highly dependent, like the overall growth in world income, on the impressive growth performance of China and the substantial growth of India. When China is excluded from the calculations, inequality increases by most measures. When India is excluded along with China, not only is there a more marked deterioration in the distribution of world income, but poverty incidence remains about constant (Table 8).[39]

[39] The various studies with similar methodology differ more in the absolute level of inequality that they report than in the trends. This is not surprising because most methodological differences are likely to lead to fairly systematic differences over time between any two studies. Judged by the Gini coefficients, whereas the Berry-Serieux figures indicate a very small decrease in inequality (from 0.648 in 1990 to 0.639 in 2000), Bhalla (2001:84) finds a somewhat greater decline from a higher level (0.676 in 1989 to 0.660 in 1999) while Sala-i-Martin (2002:60) reports a decline from 0.630 in 1990 to 0.609 in 1998. When Berry-Serieux used the unadjusted official figures for China's gross domestic product (GDP) trajectory, their Gini estimates also fell by two percentage points in the 1990s. But the faster fall in inequality reported by Sala-i-Martin does not appear to be related to this factor since he also adjusted the official Chinese growth figures down, by two percentage points (Sala-i-Martin 2002:35). Bhalla (2001:9) also refers to this issue but it is not clear whether he uses adjusted figures or not. Although there is widespread agreement that PPP conversion across currencies is superior to market exchange rate conversion that does not mean that it is without its own flaws (see below). Dowirck and Akmal (2001), replacing the PPP with an Afriat true index, find the intercountry Gini coefficient to rise a little between 1980 and 1993 (0.615 to 0.623) while the overall Gini rises from 0.698 to 0.711. If this analysis is in its other methodological details close to the studies cited above, the above numbers would suggest that use of PPP conversion may lead to a substantial downward bias in the estimated trend of world inequality. Quite possibly, though, other methodological differences account for part of the contrast in results, so a best guess would still be that any change over this period—in whichever direction—was small.

Table 1: Decile distribution of world income and inequality measures

Income shares by decile of world population *(per cent)*				Change in percentage of total world income	Annual income growth *(1985 PPP value of income, per cent)*
	1980	**1990**	**2000**	**1980–2000**	**1980–2000**
Decile 1	0.63	0.71	0.74	0.11	2.3
Decile 2	1.09	1.29	1.32	0.23	2.6
Decile 3	1.45	1.69	1.90	0.45	2.7
Decile 4	1.90	2.12	2.46	0.56	2.8
Decile 5	2.51	2.75	3.18	0.67	2.8
Decile 6	3.71	4.07	4.39	0.68	2.1
Decile 7	6.73	6.23	6.41	–0.32	0.9
Decile 8	12.34	10.89	10.19	–2.15	0.2
Decile 9	23.06	21.61	20.13	–2.93	0.6
Decile 10	46.57	48.64	49.28	2.71	1.6
World	99.99	100.00	100.00		
Measures or inequality				**20-year change**	
Gini coefficient	0.651	0.648	0.639	–0.012	
Theil coefficient	0.891	0.845	0.802	–0.089	
Atkinson (0.5)	0.349	0.343	0.332	–0.017	
Atkinson (1)	0.590	0.570	0.552	–0.038	
A (2)	0.792	0.773	0.763	–0.029	
Ratio of top to bottom decile income	73.7	69.0	66.7		

Note: Due to rounding, not all percentage columns add up to 100. **Methodology notes:** All countries of more then 25 million people in 2000 were subdivided into five, 10 or 40 income groups—the one exception was the Democratic Republic of Congo because of the lack of distribution data. Countries of less then 200 million were subdivided into five income groups (quintiles). Countries of more than 200 million but less than one billion—Indonesia and United States—were subdivided into 10 income groups (deciles). China and India were subdivided into 40 income groups.

This group of large countries represent roughly 85 per cent of the sample population—and more then 80 per cent of world population.

The income measure used was the distribution of income per person. Were such measures not available, other measures—household income, per capital expenditure, household expenditure—were used to approximate the distribution of per capita income by using the relationship between similar measures at a different date for that country or for another of similar income and structure.

Since distribution data are generally not available on a yearly basis, beginning/end of decade estimates were assumed to be the same as the one closest in time of those available and at least within three years of that date—that is, 1987–1993 for 1990. In some cases the distribution estimate was determined by interpolation.

In a small number of cases where data was available for only the beginning or the end of one decade—for example, 1990 but not 1980—the distribution of income was assumed not to have changed in that period. This could potentially have affected estimated changes in the distribution of world income if this had occurred for many countries or for a few large ones. However, the assumption was only made for three countries—Algeria, Iran and South Africa, none of them extremely large—and for only one decade in each case.

The growth rates are that of the 1985 purchasing power equivalents of the incomes of each decile. Thus, the rate of growth measures the absolute change in domestic and international purchasing power of domestic incomes, assuming the 1985 domestic currency exchange rate—in short, any change in international purchasing power must come from a change in domestic purchasing power.

Source: Berry and Serieux (2002:table 4).

Evidently no simple generalization describes the pattern of change over these 20 years. It might be argued that there was income convergence, but with such a finding sensitive to the exclusion of a single country (China), its meaning would be open to question. When India is excluded along with China the pattern is unmistakably one of divergence. These two decades could equally well be described as manifesting strong pressures toward divergence, offset—plus a little—by the rapid growth of the two largest low-income countries. In short, these two countries can be considered to have rescued the world from a dismal overall performance over the two decades.

World poverty trends have been more controversial than those of income distribution. An important element in the vigorous recent debate about the trajectory of world poverty has

involved which estimate of income to use together with a poverty line to determine the amount of poverty in any given country. Until the 1990s, the practice was to use national accounts figures as the source of the average personal income for each country; household surveys were the source of the distribution around that average. The World Bank's decision to build its estimates around survey-based means had important consequences for the subsequent debate.[40] Not only may the levels be different but, as Bhalla (2001) illustrates, so may the trends over substantial periods of time. In this case, the World Bank's decision led to a much slower estimated rate of poverty eradication than would continued use of the national accounts-based means. The above discussion of the recent trajectory of world poverty reflects our judgment that the national accounts figures provide a more reliable base for changes over time, which is what mainly matters in evaluating how world poverty moves over time.[41]

The Milanovic (2002) estimates of world income distribution, including his conclusion that there was a large increase in world inequality between 1988 and 1993, are subject to the same methodological caveat. Nevertheless his study—and others based on the same data—fuelled a vigorous debate, including an article in *The Economist* by Wade (2001:73–75) and subsequent comments. As Bhalla (2001:4) points out, none of four well-known commentators on the Wade article drew to the reader's attention that the estimated change in inequality over this short period was totally out of keeping with the last half-century of stability. This exchange in the public domain of ideas shows both how quickly exciting ideas are picked up by proponents of one side or the other, and how little they may be subjected to serious professional critique as to the adequacy of the methodology that produced them.[42]

In short, striking ranges of errors and/or questionable judgments about recent world inequality trends have contributed to much confusion. Since on average there seems to be no reason to expect a major discrepancy between distributional trends according to whether conversion across currencies is by market exchange rate or by PPP, it was a matter of historical accident that over the last decade or so it happened to make a lot of difference, and institutions like UNCTAD and UNDP, which at least temporarily accepted the validity of the exchange rate approach, reached conclusions about the evolving situation that were unduly pessimistic.[43] Ironically, a debatable methodological decision within the World Bank—but a quite different one—led its main inequality researchers to a rather parallel conclusion that the fruits of recent growth had not been filtering down to the world's poor. Rather parallel conclusions were reached but neither was definitively rooted in the facts. Parallel conclusions were also reached, this time correctly as far as can be judged, on the fact that the recent period has been plagued by a general tendency to internal deteriorations in distribution.

In-house research experience on issues of income inequality has been most notable and continuous in the cases of the World Bank and ECLAC, with other agencies making sporadic contributions in this area. On the determinants of inequality, including G&L, the World Bank and ECLAC are once again prominent, occasionally along with IDB. The other agencies rely more on the existing literature as they develop their policy statements and summary

---

[40] This section is based on Bhalla (2001:chapter 7), who notes (p. 126) that estimates of mean household income or consumption from the two sources are "distinct, separate, and many times far apart".

[41] Bhalla (2001:chapter 7) makes a powerful case to this effect, and demonstrates how large a difference it makes to the estimated trend of per capita consumption. Ravallion (2001) of the World Bank agrees that it makes a difference and in which direction. He also reports, however, that there are strong regional effects, with the divergence mainly due to the severe data problems in the contracting transition economies.

[42] Bhalla (2001:4) believes that numbers are particularly powerful when they imply that "all is not well with the capitalist world". We leave aside the question of whether political currents underlay some of the history of this poverty issue within the World Bank.

[43] Another potentially misleading type of comparison is that between the richest countries in the world—more or less the G7 (Group of Seven) countries—and the poorest, at different points of time. Because membership in the latter group changes—for example, between big countries and small ones—this is not as similar as it might appear to comparing the richest people in the world with the poorest. Thus, it was widely commented that whereas in 1965 the ratio of per capita income in the G7 to that of the world's seven poorest countries was 1:20, by 1990 it was 1:39 (UNCTAD 1997:iv), though this apparently enormous increase in inequality was more the product of using market exchange rate conversion among currencies than of the problem of changing membership in the bottom group. A related and also misleading practice was to compare the top and bottom developing countries, misleading because even as the former move rapidly up the world income scale and distance themselves from those at the bottom, they are narrowing the gap vis-à-vis those at the top.

documents, and must usually do so with less in-house expertise in the area, a factor that makes it harder to avoid certain types of misinterpretation of the data and the literature.

Globalization/liberalization and the world distribution of income

As with any other phenomenon hypothesized to have an impact on world inequality, the inquiry about links with G&L can be divided into two broad questions: (i) How have they affected intercountry inequality? and (ii) How have they affected intracountry inequality? The latter point is taken up in the section below; the tentative conclusion is that the effect has been somewhere between mildly and significantly negative. However, given that overall world inequality appears to have fallen a little, and that this is due entirely to the successful growth achieved in China and India, the big question thus becomes how G&L have affected growth in those two countries—or more precisely, how it affected the combination of growth and inequality. An answer to that question might rely to some extent on the general trade-growth literature but would have to depend mainly on in-depth looks at the experiences of the two countries. This paper does not attempt the latter (but see below).

The general literature is ambiguous on the impact of trade on growth, both on the theoretical side (Grossman and Helpman 1991) and on the empirical side; Harrison and Hanson (1999:127–128) note that though most of the early empirical studies found a consistently positive relationship, many of the more recent ones do not, including both cross-country comparisons and individual country case studies focusing on intersectoral productivity growth.[44] While convergence among results may not occur for some time on this question, what mainly matters to us here is the more concrete issue of the impact of trade and the reforms more generally in just two countries. If the reforms have added say two percentage points to the growth of each of these countries, then this might be enough, depending on where one came out as to their impact on growth and distribution elsewhere, to suggest that their impact on world inequality was a positive one that is, that they helped to push it down.

A superficial glance at the two countries' recent experiences suggests a significant positive impact in China but not in India. India's reform process occurred mainly in the 1990s, and its export share of the gross domestic product (GDP), after remaining approximately constant in the 1980s, rose significantly—from 7 per cent to 11 per cent—in the 1990s as exports grew at 11.3 per cent (World Bank 2001:294, 298). GDP growth was rapid in both decades, 5.8 per cent in the 1980s and 6.1 per cent in the 1990s, so it is not obvious that the trade opening or other aspects of liberalization were responsible for any significant amount of growth. For China, the case appears stronger. Although growth was relatively good at over 5 per cent in the 1960s and 1970s when the export share of GDP was still low, albeit rising, it accelerated rapidly to 10 per cent by the 1980s, according to official figures and a somewhat lower but still very rapid rate—7.5 per cent to 8 per cent according to adjusted estimates—with exports growing at over 19 per cent. In the 1990s, export growth decelerated to 13 per cent, still enough to push the export/GDP ratio up from 18 per cent to 22 per cent, and growth accelerated a little. More general evidence from China also strongly suggests that other aspects of liberalization released production forces that contributed to the growth acceleration, so liberalization as a whole no doubt had a larger impact than did the trade opening alone. Thus, the China story does create a reasonable possibility that, overall, G&L has helped to lower world inequality, even though it is no doubt to blame for a substantial growth in inequality within that country, among many others. Given the initially lesser role of markets in China, the growth acceleration that resulted from first steps at liberalization in that country would not lend support to the idea that this

[44] For an overall critique of the unqualified pro-openness view, see Rodrik (1996) and Rodriguez and Rodrik (2000). Among earlier studies, Barro (1991) found that trade distortions were associated with slow growth, as did Sachs and Warner (1995). Dollar and Kraay (2000), reviewing the 1980–1995 period, reported that countries that significantly cut tariffs or expanded trade volumes achieved higher growth than other countries. Rodriguez and Rodrik (2000) criticized the first two studies for use of weak data and methodological flaws—doubtful proxies of openness and omitted variables—and Rodrik (2000) blames Dollar and Kraay for using a biased country selection and reports that when that selection is unbiased the key conclusion disappears. For a useful review of the evolving literature, see Cornia and Court (2001).

process should go “all the way”; it might rather suggest that it is the first steps that provide the bulk of the growth effects.

Intracountry inequality

The recent worsening trend

Between the 1950s and the mid-1970s, there was no clear pattern of changing inequality within countries; some declines were mixed in with the increases. Since then, the pattern has been disproportionately one of worsening. Cornia and Court (2001:7) report that over the last two decades inequality has risen in 48 of the 73 countries for which data of sufficiently high quality are available, and that these countries account for 59 per cent of population and 78 per cent of the total GDP of the sample countries. Extreme examples of increased inequality include many of the former Soviet bloc countries; as a result of the combination of output drop and increased inequality, poverty jumped from 14 million to 147 million people in this region from 1989 to 1996. Among the other cases of most dramatic increase in inequality were the United Kingdom and New Zealand, in each of which the Gini coefficient rose by over 10 percentage points.

Berry and Serieux (2002:10), drawing mainly on World Bank and WIDER data compilations, report that during the 1980s, approximately, the balance of worsening to improving distribution was 14 to 10 among large countries for which reasonably comparable inequality estimates were available at the beginning and end of the decade, and during the 1990s it was 18 to 8.

Is globalization/liberalization a source of increasing country-level inequality?

The consideration of the causal links between globalization and inequality within countries begins with the apparent fact that increasing inequality has been frequent in the developing world over the period of rapid economic integration. This appears to be especially the case in Latin America, and substantially in Asia, with the evidence from most African countries inadequate to permit a definitive judgment. The analysis of this pattern has not yet advanced far enough to clarify whether there was an important causal link from globalization to increasing inequality within countries and if so what were the main mechanisms at work. The main hypotheses to explain the pattern of increasing inequality in developing countries are:

- a speed-up in the process of labour-displacing technological change or something different about that process from the past such as to make it unusually inequality-increasing;
- the economic recessions, which have in some cases accompanied the process of globalization or market reform; this hypothesis has been especially mooted for the case of Latin America (Morley 1995); and
- the market-friendly economic reforms, including freer trade and capital flows; representative of this last hypothesis are Cornia and Court (2001:6), who claim that since the early mid-1980s inequality has risen, often sharply, in most countries that have acceptable data, and that except for widening educational inequality in Latin America and sub-Saharan Africa, it is not due to what they call the “traditional causes”—land concentration, urban bias, abundance of natural resources and educational inequality; the new cause, in their judgement, is the excessively liberal economic policies and the way they have been rushed into operation.

The by now extensive literature linking economic integration with income distribution naturally addresses the question of how such integration may affect the functional distribution of income and the wage distribution. To a much lesser degree it throws light on how economic integration works through other standard determinants of inequality. Two such commonly hypothesized determinants are the distribution of land—especially important in still largely agricultural countries—and the distribution of skills via education/training. In some cases, the relevance of understanding the impacts of these determinants of distribution is simply in order not to

confuse such impacts with those of integration itself. But it is also possible or probable, depending on the case, that the process of integration affects the nature of the link between a determinant and the dependent variable—that is, inequality. For example, it has historically often been the case that the opening up of export opportunities affects the distribution of land, which in turn affects the distribution of income (Berry 2001).

Analysis of the causal links between globalization and income inequality must be part of the broader examination of the determinants of such inequality. It must take advantage of both cross-section and over-time analysis. These two complementary approaches each involve serious limitations; when used together judiciously they can provide more solid conclusions than either can separately.

Evidence from history

Given the still short duration of the current wave of globalization, it is of interest to consider what happened in the earlier phase. Lindert and Williamson (2001) address the question, "Does globalization make the world more unequal?" with primary emphasis on that period. While they note that world inequality increased dramatically at that time, they also maintain (i) that the widening began earlier; and (ii) that globalization has probably mitigated rising inequality between nations, the big gainers having been the poor countries that changed their policies to exploit the process, while those gaining the least did not choose to or were too isolated to do so. In their view, the effect of globalization on inequality within nations has gone both ways; here too they argue that those who have lost—that is, suffered increasing inequality—have typically been the excluded non-participants. They conclude, finally that the net impact of globalization is far too small to explain the observed long run increase in inequality.

These views with respect to the longer-run increase in world inequality are of interest for their possible relevance to the more recent period of non-increase. The perspective that globalization could hardly explain much of the increased inequality is consistent with several plausible arguments, in particular:

- that the main source of the growth in per capita incomes that led to the widening income gap between countries was technological change within the growth leaders, a process which in turn raised the payoff to savings and investment in capital stock in those countries; and
- that the processes of trade, capital flows, technological transfer and migration had as much or more positive impact on the follower countries as on the leaders.

The mechanisms that affect the impacts of the processes listed under the second point above are many and varied, with some clearly working to favour the leaders and others to favour the followers. Though colonialism was designed essentially to benefit the colonial power, it did not always work against the productivity of the colony—that depended on the case. Technological transfer, which would increase capacity of the colony to compete with the colonial power, might be suppressed, but not necessarily effectively in the longer run (Birnberg and Resnick 1975). Capital flows that raised the income of centre country capital holders would also raise labour productivity in the periphery countries. Migration from low-income to higher-income countries would tend to even out wage levels across countries. In short, it should not in principle be too surprising to find the net effect of globalization going in either direction. It must be noted that levels and patterns of international economic interaction were not left to the market by the colonial powers; they, instead, intervened in ways they viewed as beneficial to them, for example, by prohibiting production of certain goods in the colonies. Thus, the actual record of that period is not a direct test of something akin to free trade and free movement of factors across countries. Nor is the record today such a test, since the major powers still severely distort "market" outcomes, via interventions in agriculture, textiles and other areas. Then, as today, an interesting and important issue is whether and when a maximum degree of freedom is optimal from the perspective of the various participants in the process.

Critical Review of Recent Analyses of the Effects of G&L on Inequality

The methodological challenges

As noted above, the lack of anything remotely approaching consensus as to the impacts of G&L on country-level inequality—and on growth—reflects, among other things, many methodological challenges in the analysis of that issue. We begin by listing some of the more general challenges and then, with that background, review the major studies that have addressed this question. Although our main focus is the impact of G&L on inequality, since some studies simultaneously consider their impact on growth and/or on poverty, we review these results also, albeit in less detail.

It is helpful first to identify some of the major differences between low and high quality research in this area. The weaker studies tend to suffer from:

1. Lack of concern with data weaknesses

   No developing country has adequate data on distribution among families or individuals. With careful attention to the major weaknesses, certain types of data manipulation are reasonably safe, though the data flaws often suggest some form of sensitivity analysis to test the robustness of specific results. In too many cross-country analyses it appears that results are distorted by statistical outliers, usually due to data anomalies. Even worse, some results are distorted by weak data from small, poor countries; when no weighting by population is done, the presence of such data may turn results upside down.

   Generally, the main weakness of income distribution data in all developing countries is the incomplete and imprecise reporting of capital income.[45] Because of this, most measures of inequality and its trends are better thought of as measures of labour income and a few components of capital income—for example, rental income on housing—but not of total income. This poses a big problem when the topic of analysis are phenomena—G&L—that could significantly alter the functional distribution of income between labour and capital, something G&L are often hypothesized to do. Some feel that the potential gravity of this problem may be gleaned from systematic comparisons of survey figures on household income with national accounts estimates of the same variable—a sort of comparison widely carried out by ECLAC in its series on income distribution data in the countries of Latin America for some years, and also highlighted by Bhalla (2001). Many analysts now adjust household survey figures up to match the national accounts by assuming that everyone underreports capital income by the same per cent. While probably better than nothing for some purposes, this is a very crude correction for a potentially large problem.

   Although the measurement of G&L would appear to be and probably is less problematic than that of inequality, dramatic gaffes are already on record.[46] Where the policy variable of interest is hard to get a quantitative handle on, too many analysts have simply used an outcome variable as assumed proxy.

   It is important to have information on the degree of policies and to take advantage of any theory that relates the level of the policy variable to economic outcomes in a non-simple—for example, quadratic way. Too many simple analyses have proceeded as if countries could more or less be classified into free traders and protectionists.

---

[45] Even leaving aside income from the appreciation of capital assets that is not part of national accounts income but which does constitute part of people's wealth.

[46] Pritchett (1996a) pointed out that several common indicators were not closely correlated with each other; thus results of any analysis could vary widely according to which indicator was chosen. Many authors, including Sachs and Warner (1995) and Dollar and Kraay (2000), have confused exchange rate issues with trade policies, lumping all together as "trade openness". Rodrik (2000) and Rodriguez and Rodrik (2000) have challenged them on this point.

2. Overly simple methodology

   Time series analysis in individual countries and cross-country regressions are valuable tools, but since each is open to its particular set of limitations, they should be used as complements whenever possible. Country-specific effects and differences across countries in the mechanisms at work are of concern. Both time series and, especially, cross-country analysis is subject to erroneous assumptions about lags between a change in the causal factor and the effect it produces. In both types of analysis it is crucial to be aware of the standard econometric concerns—omitted variables, misspecification, reverse causation and more exotic problems.

   To be fully persuasive an analysis should have enough dynamic detail to be able to say something about the likelihood of reversal. Sometimes the pattern of change implies likely reversibility after a period, other times reversibility only if spurred by policy change, other times not at all. In China, for example, a lot of the recent increase in inequality seems to have to do with the regional focus of growth, the likelihood of whose reversal could depend on the extent of migration to the booming regions.

3. A specific and important type of excessively simple methodology involves a conceptual specification—for example, of regression equations—that is not detailed or nuanced enough to constitute a test of the relative merits of competing hypotheses.

   Many exercises are nothing more than consistency tests of results with a given hypothesis, but provide no evidence as to its validity vis-à-vis competing ideas. Failure to allow for non-linear relationships is a common form of this oversimplicity. Thus, it would be plausible to argue that more trade is mainly beneficial up to a certain level that is less than free trade; the same might hold for capital flows. To fairly reflect such situations, the econometric specification must be flexible enough to allow such relationships to be manifest in the statistical results—that is, it must introduce non-linearity.

4. Failure to "nest" the analysis of the impacts of G&L in a broader analysis of the determinants of changes in inequality.

   It is important to look at trends in inequality and in employment indicators over the relevant timeframe since these give some feel for the possible magnitude of the impact of the reforms. If changes in inequality and employment have not been important, this then makes it unlikely that the reforms—or anything else, for that matter—could have had major effects on those variables. If so, such effects must have been counteracted by something else with major impacts in the opposite direction.

   The econometric analyses available are, for the most part, limited to the testing of simple and universal impacts from reforms to outcomes. Although they can allow in modest ways for country-specific aspects of such causal links as exist, relative to the number of ways in which those processes might vary from country to country, they do not go far. Accordingly, it is unlikely that they can unearth the bulk of the true causal processes. Hence, the importance of in-depth examination of individual countries on the one hand, and of specific linking mechanisms on the other hand (see point 6 below).

5. Failure to distinguish among related distributions of income or consumption and resulting confusion.

   Although most current analyses make sure not to confuse or to mix income and consumption distributions in their work, less attention is often given to the difference between primary and secondary distributions—and in-between cases—between personal and family income distribution, between distributions in which the income reference period is short and those where it is longer and so on. Depending on the issue under analysis, these differences can be important. Which distribution is most useful or appropriate depends on the issue under consideration.

6. Many analyses that test for impacts of G&L on outcome variables like inequality involve no attempt to study empirically the mechanisms that are presumed to link the two; those intervening mechanisms thus constitute a "black box", which remains unopened.

   In more complete analyses, the mechanisms themselves are also a subject of inquiry. This necessitates information on the intervening variables—for example, on the human capital of the individuals among whom the degree of income inequality has changed over time. Similarly, it is important to attempt to trace the distributional effects of the individual components of the currently dominant policy package, that is:

   (i) macro stability and stabilization packages;

   (ii) freer trade;

   (iii) financial liberalization, domestic and international;

   (iv) privatization;

   (v) labour market reforms.

   Where income distribution has changed it is important to know the details; for example, were there changes by region, by education/skill level, or between labour and capital?

7. Making the methodology clear

   Careless studies tend not to make the details of the methodology used explicit. This renders it hard for the critical reader to judge their quality and to compare their results with those of other studies.

8. Sensitivity analysis

   Given the innumerable reasons why any given result from an analysis of the impact of G&L on inequality could be wrong, high quality studies can be expected to reflect the major problems and ambiguities and, hopefully, to undertake some form of sensitivity analysis. It is clear that many results hold for one period but not for another, for one data set but not for another and so on. Relatively little sensitivity analysis has been carried out, either within specific studies, or based on sets of studies undertaken in somewhat different ways.

9. A narrow vision of the objectives a society is or should be pursuing.

   While no study of the impacts of G&L on economic performance can be faulted for failing to cover all the possible components or aspects of that performance, failure to even recognize the limitations of, say, economic growth as an adequate indicator of that performance, or even growth together with inequality as customarily measured, is a sign of narrowness of perspective.

10. Failure to allow for the fallacy of composition.

    Just as there is a potential fallacy of composition in believing that trade increases will help the exporting countries as a group, the same goes for the fallacy of thinking that favouring agriculture in the developing world as a whole will be as beneficial to distribution as it would for a single country adopting that strategy. It is the same argument, applied to a different dependent variable.

    Also, one needs to worry about the marginal factor proportions associated with output changes being different from the average ones. This depends on the processes of expansion, or contraction, involved. In agriculture, it often seems that the marginal capital intensity is far higher than the average, which may have to do with the unpreparedness of smaller farmers to do the expanding whereas large ones can. Economists, of all people, should know the difference between average and marginal.

The general (world) literature linking G&L to inequality

For a couple of decades, there has been an ongoing debate as to whether and when increases in international trade have been an important factor in the increases in reported inequality in a number of industrial countries, most prominently the United States.[47] The debate subsequently spread to developing countries, where inequality often jumped in the wake of policy reforms. In the industrial countries the logic of the "trade" explanation for such increases is that there has been an increasing flow of labour-intensive imports from low-wage countries. The main competing hypothesis is that technological change has been sufficiently labour-displacing to produce the observed distributional outcome. In developing countries, trade-based explanations typically focus on the widening of the wage gap between more and less skilled workers (Robbins 1996). The current debates on G&L and inequality in developing countries can be thought of as a continuation of this discussion.

The WIDER study

One of the important recent broad-ranging research contributions—broad both regionally and thematically—is the WIDER study of inequality by Cornia and collaborators (see below). The main focus is on inequality and there is a presumption that, under certain favourable circumstances, the new model should perform well on the growth front.[48] Cornia and Court (2001) distinguish old and new causes of inequality. In their judgement the (historically new) cause of this deteriorating pattern of distribution is the excessively liberal economic policies that have been implemented and the way they have been rushed into operation.

Cornia and Kiiski (2001) put forward a theory of how stabilization and adjustment have ushered in booms, which then often lead to excessive expansion of the newly liberalized financial systems and then to new fiscal financial or external account difficulties. They also conclude that the reforms and related developments in the financial area have had a lot to do with increases in inequality through their impact on the functional distribution of income—the shares of labour and capital in total income. Among several WIDER studies that give attention to this issue, Rodriguez (2000) reports that in Venezuela labour has suffered a dramatic loss of 15 per cent of GDP to capital over the last three decades. He traces the increase in inequality to the decline in the physical capital stock and the rigidity of production processes; a decline in that stock pushed up the relative price of capital. He also finds that policies like trade liberalization, contractionary macro policies and capital account convertibility have made non-negligible contributions to that worsening. Meanwhile, Yeldan (2000:12) attributes a sharp rise in financial rents in Turkey to the financial deregulation that took control of both the exchange rate and the interest rate from the Central Bank. Interest income reached 15.2 per cent of total domestic income in 1988—equal to agriculture's share—up from virtually nil in 1980. Wages, which had risen in the 1970s, fell during the shift to an outward orientation. Yeldan notes that capital incomes effectively remained untaxed. The threat of capital flight leads to high real interest rates and cheaper foreign currency. He warns of a process in which financial capital gained supremacy over industry and the links between growth and productivity gains and the intermediation of savings funds for productive capital accumulation were severely hampered (Yeldan 2000:24).

The WIDER project, along with contributing an interesting general theory of the dynamics leading to unexpected negative impacts of stabilization and adjustment, has begun a much needed probing of the recent evolution of capital incomes and the capital share of GDP in the light of G&L and other key phenomena of the last couple of decades. On the overall impact of

[47] Bound and Johnson 1992; Freeman and Katz 1993; Wood 1994.

[48] The structural reform that has been most widely implemented in Latin America is trade liberalization, with financial liberalization the second-most important change. It is agreed that many challenges remain in terms of improving the regulatory framework and supervision of the financial sectors. In the areas of taxation and privatization, efforts have been more uneven across countries. Change has been least in the area of labour market regulation. Optimists feel that the untapped potential of all of these areas of reform offers considerable scope for raising the region's long-term growth rate, to something above 5 per cent, and that if accompanied by improvements in education—widely accepted to be one of the region's weaknesses—rates of approximately 7 per cent could be achievable.

financial development on inequality—a somewhat different question from that discussed in the WIDER papers—several World Bank studies have reached positive conclusions (Dollar and Kraay 2000; Li et al. 1998). On the other hand, an UNCTAD (1997) report also tended to blame excessively liberal policies—in trade, macroeconomic stabilization, and other elements of the standard recipe—for the observed increase in inequality. Additional studies together with critiques and discussion around these first ones will be needed to test the robustness of the early conclusions put forward on the impacts of financial liberalization and financial deepening.

The world literature linking G&L to employment

An important statement on the impact of increasing international economic integration on workers was made in the World Bank's (1995) *World Development Report*. Although it reflected good thinking and made many valid points, this report retained many of the optimistic presumptions that had underpinned the reforms at the beginning and failed to confront many of the complexities and ambiguities in the empirical record. In doing so it seemed to give way to the pressure in institutions like the World Bank toward a straightforward interpretation of how the world works, in particular that simple vision that, for the most part, coincides with the Washington consensus. That vision is manifested in various ways. In his foreword to the report, World Bank President James D. Wolfensohn observes: "The harsh reality of a global market is that policy failures are punished hard—through currency movements, shifts in market share, and, ultimately, through fluctuations in employment and wage levels" (World Bank 1995:iii).

This statement does not read well in the light of the soon-to-come Asian financial crisis, and the critiques of the structural flaws of the international financial system, which amply confirm that punishment is not well enough correlated with anything that could be meaningfully identified as policy failure to justify such a generalization.[49]

A little later Wolfensohn says, "Some see the new global marketplace as a source of opportunity, where industry and energy bring swift rewards; others regard the changes as a threat to security, and in parts of the industrial and the developing world the cause of protectionism is far from defeated" (World Bank 1995:iii).

It is implicit here that the "cause of protectionism" is universally pernicious and damaging. One need not go as far as does Chang (2002) to accept that this is still a somewhat open question. Historically, almost none of the fast growth of catching-up countries has occurred under free or near free trade. While this does not preclude the possibility that their growth would have been even faster under free trade, it leaves very little direct empirical support for such a contention.

The core of the report's ideas are summarized as follows (World Bank 1995:3–4):

> Market-based development, which encourages firms and workers to invest in physical capital, new technologies, and skills, is the best way to deliver growth and rising living standards for workers. Countries that have attempted to help workers by biasing investment against agriculture and toward industry, protecting the jobs of a favoured few industrial workers against international competition, dictating wage increases, or creating unneeded jobs in the public sector have failed over the long run—whether in Latin America, the former Soviet Union, or elsewhere. What any nation's work force needs most is stronger demand for its services, together with high levels of investment in schooling, training, roads and machines. This has worked best where, as in East Asia, governments make good use of international markets, especially for expanding exports, and give strong support to family farming.

[49] The highest-profile critique coming, interestingly, from Joseph Stiglitz, the chief economist at the World Bank from 1997 to 2000 (Stiglitz 2002).

Many of Brazil's policies over the period 1945–1980 would qualify well for this set of criticisms, and indeed received a partially overlapping set of criticisms in the study by Maddison and Associates (1992). Yet, Brazil was one of the fastest growing countries in the world at the time. Writing in 1995, the authors of this volume were still sticking to the view that freer trade would be a boon to agricultural workers, a contention less and less defensible—or defended—in Latin America where the analysis is shifting more to why that prediction appears not to have been borne out, though probably more valid in countries where land is more evenly distributed. The prescription here also includes no qualifications to the "free trade is best" recipe, to allow for the possibility that selective protection of the type applied in the successful East Asian cases could make sense. The support for family farming is welcome, and an improvement over the pre-McNamara days when the World Bank was still doling out agricultural mechanization loans for large farmers, with little if any recognition of the arguments that large farm agriculture was both less efficient (often) and worse for income distribution (always or almost always) than small-farm agriculture. The World Bank did learn its lesson in this area, and eventually came to support small farmers. Its views on trade policy today may change if accumulating evidence remains ambiguous or becomes clearly negative but, as in that former case, one would expect an institutional delay.

The implication that labour-demanding growth must be market-based might be taken from the phrase, "market-based, labour demanding growth also tends to reduce inequality" (World Bank 1995:4). But in this respect too, the prediction was both exaggerated and too general; while possibly true for Viet Nam and Bangladesh and the *maquila* zones of Latin America, it has turned out to be less successful in other regions, especially South America. Though marked-based labour demanding growth has been occurring in China, overall income distribution has worsened significantly. In too many cases, market-based growth does not seem to be labour-demanding growth. On what basis of empirical evidence was this general observation made?

Support for big farms on the assumption that they are efficient is duly critiqued in this document but the follow-up argument that "land reform is best executed within a market framework, with willing buyers and sellers, rather than through expropriation" (World Bank 1995:34) brings the authors once again into an uncharted terrain where the lack of empirical evidence means that the statement may be a hollow one; the setting described would no doubt be a fine one, but do we know that it exists in enough cases to give the point practical validity? On most aspects of these issues the report follows the evidence, as one would expect, but on the primary role of markets, there appears to be no intellectual openness.

To argue that the path of protectionist economies together with centrally planned ones "have reached their *inevitable* dead ends" (World Bank 1995:14, my emphasis) comes closer to pamphleteering than to economic analysis. It disregards the historical fact that most industrial economies came most of the way from poverty to their present wealth behind considerable, albeit selective protection.

"Market-based economies have developed faster growth than either centrally planned or protectionist economies" (World Bank 1995:15). This bald statement needs serious qualifications with respect to time period, level of protection and so on. The bulk of the report is well argued, and it draws on a good deal of serious research. A well-informed and ideologically neutral analyst would probably agree with a high share of the statements and conclusions offered, but by pushing the conclusions beyond what is warranted by the evidence, by sometimes selective use of the evidence that exists, and by a few rather wild statements like the two just cited, the report creates a flawed case for freedom of goods and factor movements across national borders, either as the source of gains for workers or for any other end. It is written up more as a policy document than as a research report, in the sense that it tries to downplay the ambiguities in our understanding and instead strives to put forward an internally consistent set of interpretations and policy implications. Since it covers a lot of ground, complicated areas are summarized quickly, which also precludes serious discussion. There is little attempt to put probabilities on the competing interpretations.

Ironically, the foreword notes that:

> One goal of the Report is to spark a broad and informed debate on these often contentious issues. Another, more important, goal is to inspire policy changes that allow more of the right sort of jobs to be created. Work is, after all, the only foundation on which economies and people can build a success that lasts (World Bank 1995:iii).

The passage highlights the basic conflict between research and policy decision; as a participant in the former one must recognize the ambiguities in the empirical record—and in the theory. One cannot know how best to contribute to the creation of good jobs until the contentious issues are at least partially resolved; until then policy recommendations must be qualified if they are not to go beyond the understanding that we in fact have.

The literature on the impacts of G&L on income distribution in Latin America

Because a good deal of the best research on these issues has related specifically to Latin America, we review this body of work separately.[50]

The Stallings and Peres ECLAC Project

Over the last 20 years or so there has been a wave of structural reforms in Latin America as an increasing number of countries have moved from closed, state-dominated economies to economies that are more market-oriented and more open to the rest of the world. Complementary policies have accorded a new priority to macroeconomic stability—especially lower inflation—and to increasing expenditure in the social area. Policy makers expected from these reforms faster growth, more job creation and greater equality. Even now only a preliminary analysis can be made as to their success, since many of the reforms are less than a decade old. Stallings and Peres (2000) summarize the results of a large research effort carried out by a team of researchers at ECLAC on the impacts of the reforms on growth, employment and distribution in Latin America.

The authors note the problem of weak data (Stallings and Perez 2000:8), part of the reason that the project took three years to complete. It was also multifaceted, giving it a better than average chance to throw real light on the issues. From a methodological point of view, it is clear that simple testing for correlations between the outcomes of interest and the implementation of the reforms, even if carried out as well as possible and with the best data available—which is not the normal case—cannot provide reliable results, given the possible lags in the impacts of certain reforms, problems of omitted variables, mismeasurement of variables and so on. This puts a premium on undertaking a complementary body of research that analyses the mechanisms through which the reforms are expected to have their impacts: on the growth side this includes investment and technological change, while on the employment/income distribution side it includes wage differentials, composition of demand for different types of labour, size structure of firms and labour market functioning in general. The research team wisely concluded that the analysis should be carried out at each of the country, sectoral and microeconomic levels rather than striving for very broad generalities about the region as a whole. Case studies were undertaken in nine countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Jamaica, Mexico and Peru.

The Stallings and Peres project stands out for several key strengths relative to most other efforts:

- a serious attempt to measure the reform variables, drawing on and refining earlier work at the IDB;
- a serious effort to deal with quality problems in the data on income distribution;

[50] An important new contribution is ECLAC (2000).

- serious econometric work in the attempt to identify the causal links between reform variables and outcome variables (growth and inequality); and
- analysis not only of the possible links between reforms and final outcomes but that between reforms and key intervening variables, in particular investment and technological change.

In their overall assessment of the impact of reforms in the nine selected countries, Stallings and Peres (2000:frontispiece) conclude that the "econometric evidence suggests that the reforms have had a surprisingly small positive impact on growth and investment together with a small negative impact on employment and income distribution". Only by moving to the country, sectoral and microeconomic levels did they find evidence of stronger effects.

Stallings and Peres (2000) continue,

> The reforms fostered investment and modernization, but at the same time they led to significant differences in performance: high- and low-growth countries, dynamic and lagging sectors, a gap between large and small firms, and a growing differential between the incomes of the well educated and the rest of the population. The result has been specialization and polarization, which implies both opportunities and challenges. ... Trade liberalization and privatization were instrumental in fostering market restructuring, which led to the entry of new actors and to new investment, particularly of foreign origin. Stronger competition from imports and from new actors in the domestic market led to widespread modernization, particularly in sectors undergoing rapid technological change, such as telecommunications. ... Large firms, especially subsidiaries of transnational corporations, were the leaders in both investment and the incorporation of new technologies. Small domestic firms presented a very heterogeneous performance, but continued to produce mainly for the domestic markets. Consequently, they performed better when macroeconomic conditions were favourable.

The study concludes that the reforms had favourable effects in several areas, but they were not sufficient to "foster dynamic, stable economic growth in the region. Moreover, the region's problems in the areas of unemployment and inequality will not be resolved unless the reforms are complemented with policies to foster competitiveness, job creation, and a better income distribution."

Stallings and Peres conclude, on the basis of Morley's (2001) contribution to the project, that the effect of the reforms on distribution was indeed negative but less dramatic than often believed. This conclusion emerged, in one sense, from the fact that some of the reform indices were found to have a regressive effect on inequality and others a progressive one. How persuasive are these results of what seems to be the most serious analysis to date? The answer is "only moderately", due to the inherent limitations of the methodology (see below). The same assessment—or a more severe one—must be applied to all other available analyses however. At this point all that one can hope from the set of available studies is to get some feel for the possible range within which those effects may lie—in the short and medium run—and to identify some of the conditions that would be likely to push those effects toward the more positive end of the likely range and the different conditions that would be likely to push them toward the negative part. Since the distributional effects of G&L seem to have received more study in Latin America than elsewhere, the limits of our knowledge are at least as narrow for other parts of the developing world.

Other studies for Latin America

Among multicountry studies of the impact of G&L on inequality in Latin America are those of the IDB (1997), Behrman et al. (2000), Berry (1998) and Bulmer-Thomas (1996). There have also been a number of single-country analyses falling into this category. The IDB (1997) study employed an econometric analysis similar to that of Morley for ECLAC (2001) but reached

different results, concluding that the main worsening of income distribution was in the 1980s, with no further increases in the 1990s, and that the reforms—including the trade reforms—actually improved distribution in comparison with what it would otherwise have been. They also argued that "while structural reforms have greatly facilitated growth and benefited lower income groups, these reforms have been operating against the countervailing effects of very slow and unequally distributed progress in education". Given the similar methodology to that used by Morley (2001) and the fact that Morley had worked from the reform indices developed by the IDB authors but improved them, as well as undertaking a more thorough econometric analysis with longer data series, it is a reasonable surmise that Morley's results are the more reliable of the two. We therefore attach low probability to the possibility that the reforms may have had a positive effect on distribution. Similarly, the ECLAC conclusion that the reforms had only a small positive impact on growth is more likely to be the case than the IDB judgment that there was a substantial positive impact.

Behrman et al. (2000) employ the reform indices referred to above but focus not on the overall level of inequality among families but on wage differentials across earners. They report that the overall reform index was significantly related to increases in wage inequality though the intensity of this effect declined over time.[51] The strongest contributors to the disequalizing effect were domestic financial reform, capital account liberalization and tax reform. Trade reform had no discernable effect. Morley (2001:84–91) concurs on tax reform, but finds the impact of trade reform to be regressive, that of capital account opening to be progressive, and those of financial reforms and privatization to be unstable across regressions, leading him to withhold judgment on them. He complements his regressions relating levels of independent variables to level of inequality with an attempt to explain changes in inequality, and once again finds the impact of the overall reform index to be regressive. Both the differences between these two studies and the sensitivity of the coefficients of some indices to specification points to considerable, and hardly surprising, fragility in the results of exercises like these. It is reassuring that the two studies come up with the same direction of effect (regressive) of the overall reform package, even though they are looking at different types of inequality.

Berry and associates undertook a series of country case studies (reported in Berry 1998), using somewhat differing methodologies according to the country but not employing the cross-country econometric analysis of Morley and the IDB. Their conclusion that the reforms—mainly trade reform and the associated opening up—may have been a factor in worsening inequality arose from the timing coincidence in a number of the countries (Argentina, Chile, Colombia, Dominican Republic, Ecuador, Mexico and Uruguay) between policy change and worsening inequality.[52] The countries analysed were partly different from those ECLAC used. Some of the distribution series used in the work on a given country—for example, Colombia—were also different as between the two studies. The differing conclusions could reflect either of these elements, among many other possibilities.

The main advantage of the Morley methodology lies in the fact that it used quantified indices of the reform variables along with cross-country econometric estimates of the impacts of the reforms. Its main possible weaknesses are:

1. Data problems in the inequality series or in the reform indices.[53]
2. Incorrect specification of lag structure.
3. Inconsistency between the econometric results when the variables were specified in levels and those when the variables were specified in terms of changes (Morley 2001:chapter IV); this is likely to be a symptom of problems in the data and/or specification.

---

[51] A similar result emerges in the study by Taylor (2000) based on a sample of countries, most of which were from Latin America.

[52] The set of studies reported by Bulmer-Thomas (1996) points in this direction as well.

[53] For example, it would take very careful studies of how the tax burden has shifted to calibrate this index well.

4. The problem of imposing a specification that allows little or no difference in the way the reforms would affect inequality in the different countries. In particular, it does not appear plausible that the impacts of reforms—by implication, the impact of the ISI system—would be the same regardless of country economic structure, for example size, so Brazil and Jamaica should probably not be included in the same equation without great care. Have the results proven robust to division of the sample? It is essential to remember that it is the big countries that matter for the majority of the people involved, so results driven by the experience of small countries can be quite misleading.
5. The tests performed would not permit one to identify the benefits of, say, the East Asian countries' selective use of tariffs and protection—that is, the test is not as refined as one would like to see.
6. Given the common argument that much of the growth benefits of reform will be delayed, since there is a transitional period to go through—as with new technologies—does this imply that the most important distributional outcomes will also only be manifest at that time? Presumably that is the case, since the structure of growth will be different after the reforms, in which case the failure to be able to model such lags effectively becomes a serious problem.[54]

This ECLAC project appears to provide the only analysis of its sort yet for any region or for the LDCs as a group, and thus warrants special attention. But this genre is still at an early stage and hence not yet too trustworthy, especially given the obvious biases to which it might be subject. It should be redone after a careful review of the distribution trends in each of the major countries over the last 30 years. Few if any of the countries have moderately reliable time series on the level of inequality;[55] in a number of cases—for example, Argentina and Colombia—one of several major problems is the lack of comparable rural surveys until quite recently, if at all.

Without detailed probing and comparison, it is not possible to sort out which of the existing studies, if indeed any of them, gets close to the truth of the matter. A prudent judgement might be that the truth probably lies between the Morley results and a negative reading of the results of Berry and others, that is, a reading toward the pessimistic end of the range suggested by that study, basically assigning all or nearly all of the distributional worsening that coincided with the reforms to them. In the latter case, the reforms could have accounted for increases in the Gini coefficient of up to five percentage points in a number of the countries—but not in all, so that the average impact would be perhaps half that much. Morley's results suggest a much smaller impact and one that is not always statistically significant.

More important, there is little reason to believe that the reforms would have had similar impacts in all countries; Morley takes some steps to deal with this problem, but it is impossible to handle it in a perfectly reliable way. The two studies concur that the initial adoption of the reform package coincided with a big one-time upward shift in inequality in Argentina, Chile and Mexico (Morley 2001:152) and that there was no significant shift in Brazil or Costa Rica and an improvement in Peru. Morley argues that there was no increase at this time in Colombia, while Berry and Tenjo (1997) conclude that there was. I also doubt the validity of the data for Bolivia used by Morley. Clearly it will take considerably more work to sort out the remaining puzzles in the record within Latin America, and that work will need to include high-quality analyses of individual countries.

In one such study, Harrison and Hanson (1999) assess the extent to which the rise in the ratio of skilled to unskilled wages in Mexico during the 1980s was associated with the 1985 trade reform. They report some evidence of its consistency with the Stolper-Samuelson theorem

[54] A somewhat parallel argument might be that, since some of the reforms backfired in certain countries, there is a case for just testing the distributional impacts of those which have a chance of becoming permanent growth supports. Assuming that freeing of the capital account does not fit that category (since it often had clearly negative effects), should it be dropped from the overall reform index?

[55] The one country whose series may be reliable is Brazil.

through the fact that protection was skewed toward low-skilled sectors before the reform and that tariffs fell farther in sectors with a higher share of unskilled workers. They also present evidence from plant-level regressions suggesting that "foreign direct investment, export orientation, and technological change also played an important role in the observed increase in inequality" (Harrison and Hanson 1999:152–153). Beyer et al. (1999) report that the fall in the price of labour-intensive goods in Chile helps to explain the increase in wage inequality during the last two decades, but they do not probe the mechanisms that might underlie that link. Even though a number of such studies have identified or suggested negative distributional impacts of trade reform, most microeconomic analysis finds surprisingly small effects on employment at the firm level. These studies, pending a more complete understanding of the processes involved, hint at modest overall impacts of such reforms, unless they lead to major changes in macroeconomic behaviour, for example. This may be explained in part by other adjustments which themselves have possibly important distributional impacts, such as cuts in profits and labour productivity increases. The studies thus lend tentative support to the proposition that the overall distributional impacts of G&L may be small. But they too struggle to deal effectively with the nature of lags, so it may be that the longer run effects exceed those of the short run.

Neither of the multicountry studies can claim to deal effectively with the problem of underreporting of capital income. This creates a serious possibility that the impact of the reforms was more negative than either of them concluded it to be, especially in the light of the findings reported by Cornia and Court (2001) on the role of interest income in observed increases in inequality in several countries studied in the WIDER project. In that case, the pessimistic end of the range of possible impacts of G&L on the Gini coefficient might reach as far as an average of five points or so.

The literature linking G&L to the employment record in Latin America

What happens in the labour market is clearly related to trends in income distribution. It is generally assumed that when labour demand is buoyant, this will be manifest in a rising rate of employment (growth of employment) and/or rising wages. Income distribution is also affected in important ways by the relative growth of employment and wages in the more skilled, as opposed to the less skilled, labour categories. Thus, while one's ultimate concern may be what happens to income distribution, much can be learned about why distributional trends occur by studying employment and wage patterns; in the absence of relative distributional data, those patterns may partially substitute for income distribution data.

Considerable attention in the case of Latin America has been directed to the fact that the reforms have produced—or at least been followed by—a robust growth of export quantum, but that for the region as a whole this success has not translated into either a healthy rate of economic growth or strong growth of labour demand led by the export—or more generally the tradables—sector. Confronted with this combination of outcomes, one might hypothesize that the failure of export quantum growth to bring the expected GDP growth was due to worsening terms of trade, to a lack of positive linkage effects from that export growth or to other unrelated reasons. In terms of the failure of employment increases to be focused in the tradables sector, an obvious hypothesis is that the export growth did not turn out to be very labour intensive. Each of these hypotheses appears to have a considerable grain of truth to it, as is reflected in the studies referred to below.

The ECLAC study

Once again the most detailed analysis on the labour market effects of the reforms in Latin America is that carried out by Weller as part of the ECLAC study discussed above, and focusing on the 1990s, after the debt crisis had dissipated and most of the reforms had been implemented. The labour outcomes of the 1990s saw a high per cent of new jobs in low productivity, mainly service, sectors. According to ILO, the informal sector provided about 60 per cent of all new jobs between 1990 and 1998 (Weller 2001:62). The reforms did not generate jobs in the expected sectors. The sectoral composition of new employment in the 1990s—

weighted average for nine countries—showed agriculture at -8 per cent, manufacturing 8 per cent, construction 8 per cent, commerce 33 per cent, financial services 13 per cent, social services 38 per cent and communal/personal services at -4 per cent (Weller 2001:75). Weller judges that the expectations of increased employment in the tradables sectors have been unmet because comparative advantage has not been shaped by the relative abundance of capital and labour. Important factors are the insertion into production networks that guarantee access to the necessary technologies and markets; flexibility to adapt quickly to changes in demand; and material, technical and social infrastructures (Jaffee 1993). Rapid market integration is imposing new technology standards that typically imply a decline in labour intensity; an important factor here is pressure for product standardization, which forces the use of specific technologies. Such standardization "fixes the use of technology, capital and skilled labour and limits the possibility of choosing technologies on the basis of the relative abundance of factors" (Katz 2001:103).

Econometric analysis of employment in formal sector manufacturing for six of the larger countries shows output as the main variable determining employment growth in a given branch; according to the regression, the average reform index has a negative and quite significant impact on employment in the current period but smaller and less significant—though the value still exceeds two—with a lag of five years, suggesting that the labour-saving effect of the reforms may have been concentrated at the time of their implementation. The lower labour intensity of industrial growth was due both to (i) a decline in the share of labour intensive sectors vis-à-vis those intensive in natural resources, technology and capital; and (ii) a decline in labour intensity within the various branches (Weller 2001:89). Of the six countries analysed, only in Mexico did labour productivity grow more slowly in the 1990s than in the 1980s. The special feature of Mexico—and Central America—was the *maquiladora* phenomenon, where employment grew from 114,000 in 1980 to 425,000 in 1990 and 1.1 million in mid-1999. Between 1990 and 1995, labour productivity in the *maquiladoras* of Mexico only rose by 0.5 per cent per year. So the pattern in these countries is closer to what had been expected, with job creation for the lower-skilled workers occurring through that phenomenon. But this growth was largely due to special regional trade agreements that gave the affected countries preferential treatment.

By size, the medium-large manufacturing range lost employment, the small gained and the micro gained the most in the 1990s (Weller 2001:96). Mexico was the only case studied in which the medium-large firms' employment outpaced that of small firms, and Bolivia was the one where its growth was positive at all. Katz (2001) shows that the SME category did relatively well in the high-growth categories. Peres and Stumpo (1999) found SMEs performing strongly in activities geared to the domestic market—they tend to be labour intensive and are often involved in the processing of natural resources; foreign competition did not impinge heavily in these areas, so they were able to expand production when domestic demand was good. Elsewhere, international capital mobility undermines the competitiveness of smaller firms that do not have access to it, when larger ones do.

Expectations based on revived agricultural growth have also been unmet, since they did not take into account the sector's segmentation; often output expansion pulls people out of the *campesino* (last resort) sector. Agriculture, and in particular small farmers, had been identified as one of the areas likely to benefit most from the reforms. As hoped, agricultural exports rose well, at 6.6 per cent between 1990 and 1997 (Weller 2001:79). Some of the relatively new exports, for example, soya, create few jobs while others, such as flowers, vegetables and certain fruits, do. But liberalization hit many activities geared to the domestic market, as imports grew at 10.3 per cent per year. The negative impact on non-commercial producers has, according to some observers, contributed to socioproductive polarization (Martínez and Paz Cafferata 1993). Technological change, against expectations, did not lead to more labour use, as exemplified by the modernization of export agriculture in the Mexican Bajio (Wilcox Young 1993, cited by Weller 2001:80). When trade liberalization coincided with an appreciation of the currency, producers were put into special difficulties; the lowered price of machinery must have further discouraged labour use. Technological change together with market integration eroded the

competitiveness of smaller farms (Johnson and Ruttan 1994). Again contrary to predictions, it was the tertiary—mainly non-tradable—sector that has created the jobs. In most activities, reported average productivity fell as employment rose, though productivity figures are open to some question in many services.

Quality of employment is tending to deteriorate in terms of labour stability and social security. In agriculture seasonal work has increased in importance (Gómez and Klein 1993). In Brazil, Guatemala and Mexico, the share of workers covered by social security fell; in Costa Rica it rose sharply but due to a policy decision. In manufacturing the greater flexibility of contractual links tended to segment formal sector employment into a core with some stability, a range of incentives and increasing real wages and a peripheral labour force with fixed-term contracts and no social protection (Weller 2001:139). This periphery labour force serves to adjust to demand shocks (Martínez 1996). On average, labour relations of workers in main companies differ markedly from those in subcontracted firms (Echeverría and Uribe 1998), though conditions vary widely among the latter, and even home work, when in advanced technology sectors, can be flexible but not precarious (Weller 2001:140). Subcontracting is common not only in manufacturing but also in tertiary activities, particularly business services.

In short, most of the outcomes to date on the employment front have been the opposite of those predicted by proponents of the reforms. This is not surprising, given the links between labour market outcomes and distributional outcomes, and the fact that trends in distribution have tended to be the opposite of those expected.

Summary and Concluding Thoughts

Data deficiencies and a lack of in-depth analyses of inequality, poverty and their determinants, especially in developing countries, have delayed a better understanding of how these important indicators of social and economic well-being have been changing over time and how they have been affected by G&L. In reference to the period since around 1980, often defined as roughly corresponding to the new era of globalization, a few interesting conclusions do, however, seem more or less secure. First, this period, and especially the 1990s, has been characterized by a within-country tendency toward increasing inequality of income distribution among persons. Second, in spite of that intracountry pattern, the world distribution of income among persons has been relatively stable—as is true for the last half-century, in fact; there was probably a slight decline in inequality over these two decades. Third, since average income growth for the poorest deciles of the world distribution was substantial, poverty levels continued to decline, though the improvement of this variable was small in the 1990s when a low poverty line—for example, $500 in 1985 US dollars or less—is used. The surprising fact that world inequality has fallen even with a general tendency for intracountry inequality to rise is explained by the strong growth of the world's two most populous low-income nations, China and India, over this period. For the world, excluding these two countries, there has been a marked increase in inequality and no poverty reduction.

Despite overall progress at the world level, there are several worrisome aspects of the recent record on inequality and poverty. First, the story of the 1990s was less good than that of the 1980s. This was in part due to the implosion of the former Soviet Bloc and the large increases in inequality that befell them. Another factor was the continuing slow growth of sub-Saharan Africa, increasingly the locus of the world's poor people. Second, given that the current level of world inequality is so extreme, and that counter currents pushing it one way and the other are so varied, there are no solid grounds to predict significant improvement in the near future.

Analysis of the possible links between globalization, liberalization and inequality/poverty is far too limited to provide any reliable conclusions at this point. Such inquiry is farther advanced for Latin America than elsewhere. The range of likely average impact of G&L on country-level inequality goes from mildly negative to strongly negative over the short to medium run. No

studies have thrown much light on the long-run impact due to the recentness of the liberalizing reforms and the current wave of globalization. A high multiple of the amount of research carried out thus far would be necessary to provide reliable interpretations of these links.

The record on the impact of G&L on inequality and poverty thus remains murky, but a reasonable guess would be that these phenomena cannot be credited either with a major positive contribution or a major negative one at the world level, though their impacts in certain specific countries are probably much greater. Since past is not always prelude, it is worth speculating about whether their future impacts might be either positive enough to constitute a strong case for their continuation or negative enough to warrant serious attempts to rein them in. An important element in the context for this question is that, since growth of per capita income in the low-income countries is the key determinant over recent decades of changes in world inequality and poverty—defined by absolute purchasing power—the most important effects of G&L could be on the growth rates of those countries. If G&L has in fact contributed significantly to declining world poverty over the last couple of decades then the only likely route would be through a positive impact on growth in China and India, a matter that requires more detailed analysis of the experiences of those two countries than could be undertaken here.

Future impacts of G&L could be either more or less positive than past ones. It may be that, if they do have significant net growth-producing effects, then these occur more frequently in some types of countries than in others and in some ranges of the spectrum from autarky to free trade than in others. Even if G&L have contributed significantly to Chinese and Indian growth, will they have similar beneficial effects in sub-Saharan Africa, the new prime locus of world poverty? There are several causes for concern. Africa's last decade of reasonable growth, the 1970s, was accompanied by very low export growth. The latter has accelerated since then but has not yet brought GDP growth even to 3 per cent per year (see table 2). The export to GDP ratio is on average high in Africa—still a little above average for developing countries,[56] even though it has not risen significantly in the 1990s as the average for developing countries has. If it is also true that if optimal trade policy involves selected protection of infant industries, then African and other low-income countries may be deprived of a source of growth that was important in both Latin America and East Asia. They may remain stuck in the primary goods exporter category—or the light manufactures category—even as prices of those goods sink or remain low. Worse, many of the exports are minerals, the benefits from which often fail to be ploughed back into growth. In the heavy weight of primary goods in their exports, African countries show a greater parallel with Latin America than with the East Asian success stories.

Table 2: Growth and exports in sub-Saharan Africa, 1970s, 1980s and 1990s

Variable	1970–1980	1980–1990	1990–1999
Growth of GDP *(per cent per year)*	3.8	1.7	2.4
Growth of exports of goods and services *(per cent per year)*	1.0[a]	2.4	4.4
Exports of goods and services as percentage of GDP	20.0	27.0	27.0

[a] Merchandise trade only. **Source:** World Bank database at www.worldbank.org (accessed in 2001).

A second concern is that the information and communications revolution may, at least for a longish initial phase, have negative impacts on poorer countries by making it harder for them to compete, attract foreign investment and so on. Other types of technological change, which continuously replace labour-using technologies—for example, in the clothing industry—are another threat. Finally, armed conflict, rapid population growth, AIDS and governance problems may continue to interact with poverty in deleterious ways.

[56] This high ratio, however, reflects the small size of many African countries and the tendency for small countries to have above average trade to GDP ratios.

On the optimistic side, it may be that as more and more countries achieve higher incomes and wages, the demand for labour intensive products and services will become increasingly concentrated on the remaining poor countries and make it ever easier for them to benefit from trade, foreign investment, and perhaps even emigration. Then we might expect the recent growth records of China, India and a few others to be emulated in poorer countries. It may also be that the relative success in the raising of educational levels over the last several decades in all parts of the developing world will become a strongly positive factor. Even if the G&L processes have temporarily widened wage gaps between the more educated and the less, this can with time be offset by more investment in education. Governance may improve as educational levels continue to rise or for other reasons.

Is there a major or essential role for globalization and/or liberalization in any of these positive processes? This—like so many things—can be argued both ways. If the optimal level of openness is near the positive end of the spectrum, then globalization and reduction of barriers to international interaction will have a positive impact; if it is not, then the implication is the opposite. Educational investment is mainly independent of G&L but not entirely. Where governance is weak, the effects of G&L may be very positive. Whether free but appropriately regulated markets are superior to substantial but efficiently executed intervention[57] is in many respects an open question, but whether they are superior to really bad governance is not, as long as it is possible to achieve a modicum of governance in those areas that do make markets work better.

Each element in the above speculations warrants attention and research in order to help us both to predict the short and medium run future of inequality and to better understand the role that G&L may play in it. As to the longer run, when our children and grandchildren will be the principal actors, there seem to be more grounds for optimism that economic processes will bring considerable world convergence.[58] World population growth has slowed considerably and continues to do so. Most countries have a great deal of still untapped productivity potential.

The speed with which convergence in the purely economic sense of purchasing power might occur will depend in part on the relative importance of different sources of growth in the long run, and on the way, international economic interactions encourage or retard the process. If human capital turns out to be the key to long-run growth, then economic convergence should be more likely since the variance in the level of human capital across countries is likely to continue to diminish, for example, as measured by years in school or in intensive learning. In the not-too-distant future, average years of schooling of the school-age cohort in most countries will be something above secondary. This means that the variance will be much less than was recently the case, when the gap was between 12 years in a developed country and one or two years in a very poor country. If physical capital is central, then countries able to achieve high savings rates or get good access to foreign capital will gain on the front-runners, as many developing countries have done over the last half-century. But, since there is no such obvious limit to the accumulation of physical capital as there is to human capital, convergence would always depend on success by the poorer countries in accumulating capital rapidly. If technology is the key, as economic historians like Lindert and Williamson (2001) think it to be, then the central question is how transferable it and its benefits are to the developing countries, certainly a complicated issue. Baumol (2002) presents an upbeat analysis of innovation and its dissemination that, although not focusing on developing countries per se, gives some grounds for optimism on this count.

---

[57] Leaving aside that effective regulation is a form of intervention.

[58] The dangers in this longer run appear to be ecological (loss of resources, flora and fauna; and climate change) and possibly technology run amuck in the attempt to improve on nature as biotechnology research proceeds without social control and without enough guidance from society's thinkers.

How do G&L interact with the long-run growth processes? The most obvious potential for income convergence across countries, consistent again with the judgment of Williamson (1990) and others, is international migration. But present flows from the South to the North are both too small and too skewed toward high skills to provide much optimism on this count. Trade expansion up to a point is no doubt good but the ambiguous ex post evidence from the current wave of globalization, as well as certain of its characteristics, throw doubts on whether it is likely to hasten convergence. Chief among those characteristics are the fact that the industrial countries retain a considerable degree of protection against exports of the developing world, while pressuring the latter to dismantle protection that may sometimes be helpful to growth. Whether G&L significantly speed the transfer of productive technology is also an open question. It is clear that freedom of trade and investment flows brings technology with it. How much of such technology is appropriate to the host country, how much would come anyway a little later without G&L, and how much could have been developed, perhaps better, in the developing world are all relative unknowns.

As the world gets richer, will income gaps across countries and the presence or absence of convergence lose some of its relevance? Considerable convergence has already occurred in life expectancy and probably in the related matter of nutrition. Convergence is occurring in years of schooling and in access to sanitary facilities and clean water. When the result of further convergence will be mainly limited to relative consumption of luxury goods and services, it should matter less, unless the human species is able to retain or further hone the capacity to feel deprived because of low relative position in the pecking order. An optimist would note that it is irrational from the perspective of societal well-being to foster this pattern, hence sooner or later this will be recognized and steps taken. A pessimist (realist?) would note that the trend toward the atomistic competitive market as the economic process of choice bodes ill for any shift away from focus on relative position in the society. It would also be noted that the market system thrives on creating hitherto absent or unrecognized needs and on celebrating the idea of exclusivity—having things that others do not have. Can the nature of this process be altered to make it more socially positive?

Bibliography

Altimir, Oscar. 1996. "Economic development and social equity: A Latin American perspective." *Journal of Interamerican Studies and World Affairs*, Vol. 38, Nos. 2–3, pp. 47–71.

———. 1987. "Income distribution statistics in Latin America and their reliability." *Review of Income and Wealth*, Series 33, No. 2, pp. 111–155.

Arrighi, G. 1991. "World income inequalities and the future of socialism." *New Left Review*, No. 189, pp. 39–65.

Balassa, Bela and associates. 1971. *The Structure of Protection in Developing Countries*. Johns Hopkins University Press, Baltimore, MD.

Balassa, Bela, Gerardo M. Bueno, Pedro-Pablo Kuczynski and Mario Henrique Simonsen. 1986. *Toward Renewed Economic Growth in Latin America*. Colegio de México, Fundação Getulio Vargas and Institute for International Economics, Washington, DC.

Barro, Robert. 1991. "Economic growth in a cross-section of countries." *Quarterly Journal of Economics*, Vol. 106, No. 2, pp. 407–443.

Barzini, Luigi G. 1983. *The Europeans*. Simon and Schuster, New York.

Baumol, William. 2002. *The Free-Market Innovation Machine; Analysing the Growth Miracle of Capitalism*. Princeton University Press, Princeton, NJ.

Behrman, Jere, Nancy Birdsall and Miguel Szekely. 2000. *Economic Reform and Wage Differentials in Latin America*. Research Working Paper No. 435. Inter-American Development Bank (IDB), Washington, DC.

Berry, Albert. 2001. "When do agricultural exports help the rural poor? A political economy approach." *Oxford Development Studies*, Vol. 29, No. 2, pp. 125–144.

———. 1997. "The inequality threat in Latin America." *Latin American Research Review*, Vol. 32, No. 2, pp. 3–40.

Berry, Albert (ed.). 1998. *Poverty, Economic Reform, and Income Distribution in Latin America*. Lynne Rienner Publishers, Boulder, CO.

Berry, Albert and Jaime Tenjo. 1998. "Trade liberalization, labour reform and income distribution in Colombia." In Albert Berry (ed.), op. cit.

Berry, Albert and John Serieux. 2002. *Riding the Elephants: The Evolution of World Economic Growth and Income Distribution at the End of the 20th Century (1980–2000)*. Mimeo.

Beyer, Harald, Patricio Rojas and Rodrigo Vergara. 1999. "Trade liberalization and wage inequality." *Journal of Development Economics*, Vol. 59, No. 1, pp. 103–123.

Bhagwati, Jagdish. 1978. *Foreign Trade Regimes and Economic Development: Anatomy and Consequences of Exchange Control Regimes*. Ballinger, Lexington, MA.

Bhalla, Surgit S. 2001. *Imagine There's No Country: Globalization and Its Consequences for Poverty, Inequality and Growth*. Mimeo, third draft.

Birdsall, Nancy and Augusto de la Torre, with Rachel Menezes. 2001. *Washington Contentious: Economic Policies for Social Equity in Latin America*. Carnegie Endowment for International Peace and Inter-American Dialogue, Washington, DC.

Birdsall, Nancy, David Ross and Richard Sabot. 1997. "Inequality and growth reconsidered: Lessons from East Asia." *World Bank Economic Review*, Vol. 9, No. 3, pp. 477–508.

Birnberg, Thomas B. and Stephen A. Resnick. 1975. *Colonial Development: An Econometric Study*. Yale University Press, New Haven, CT.

Bound, J. and G. Johnson. 1992. "Changes in the structure of wages in the 1980s: An evaluation and alternative explanations." *American Economic Review*, Vol. 82, No. 3, pp. 371–392.

Bourguinon, Francois and Christian Morrisson. 2002. "Inequality among world citizens, 1820–1992." *American Economic Review*, Vol. 92, No. 4, pp. 727–744.

Bulmer-Thomas, Victor (ed.). 1996. *The New Economic Model in Latin America and its Impact on Income Distribution and Poverty*. Institute of Latin American Studies, University of London and St. Martins Press, New York.

Burki, Shahid Javed and Guillermo E. Perry. 1997. *The Long March: A Reform Agenda for Latin America and the Caribbean in the Next Decade*. World Bank Latin American and Caribbean Studies, World Bank, Washington, DC.

Chang, Ha-Joon. 2002. *Kicking Away the Ladder? Policies and Institutions for Economic Development in Historical Perspective*. Anthem Press, London.

Chen, Shaohua, and Martin Ravallion. 2000. *How Did the World's Poorest Fare in the 1990s?* Mimeo. Development Research Group, World Bank, Washington, DC.

Chenery, Hollis B., Montek S. Ahluwalia and Clive L.G. Bell. 1974. *Redistribution with Growth*. Oxford University Press, London.

Comisión Económica para América Latina y el Caribe (CEPAL). 1987. *Antecedentes de la distribución del ingreso: Argentina, 1953–1982*. CEPAL, Santiago, Chile.

Cornia, Giovanni Andrea and Julius Court. 2001. *Inequality, Growth and Poverty in the Era of Liberalization and Globalization*. UNU Policy Brief No. 4, UNU/WIDER, Helsinki.

Cornia, Giovanni Andrea and Sampsa Kiiski. 2001. *Trends in Income Distribution in the Post-World War II Period*. Discussion Paper No. 2001/89. UNU/WIDER, Helsinki.

Deininger, Klaus and Lyn Squire. 1996. "A new data set measuring inequality." *World Bank Economic Review*, Vol. 10, No. 3, pp. 565–591.

Diener, Ed and Carol Diener. 1995. "The wealth of nations revisited: Income and the quality of life." *Social Indicators Research*, Vol. 36, No. 3, pp. 275–286.

Dollar, David. 2001. *Globalization, Inequality and Poverty Since 1980*. Mimeo. World Bank, Washington, DC.

Dollar, David and Aart Kraay. 2000. *Growth is Good for the Poor*. Policy Research Paper No. 2587. World Bank, Washington, DC.

Dowrick, Steve and Muhammad Akmal. 2001. *Contradictory Trends in Global Income Inequality: A Tale of Two Biases*. Mimeo. Australian National University, Canberra.

Dowrick, S. and J. Quiggin. 1997. "True measures of GDP and convergence." *American Economic Review*, Vol. 87, No. 1, pp. 332–341.

Easterlin, R. 1995. "Will raising the incomes of all increase the happiness of all?" *Journal of Economic Behaviour and Organization*, Vol. 27, No. 1, pp. 35–47.

———. 1974. "Does economic growth improve the human lot? Some empirical evidence." In Paul A. David and Melvin W. Reder (eds.), *Nations and Households in Economic Growth: Essays in Honor of Moses Abramovitz*. Academic Press, New York.

Echeverría, Magdalena and Verónica Uribe. 1998. *Condiciones de trabajo en sistemas de subcontratación*. Documento de trabajo No. 81. Multidisciplinary Technical Team and International Labour Organization (ILO), Santiago, Chile.

Economic Commission for Latin America and the Caribbean (ECLAC). 2002. *Globalization and Development*. ECLAC, Santiago, Chile.

———. 2000. *Equity, Development and Citizenship*. ECLAC, Santiago, Chile.

———. 1997. *The Equity Gap: Latin America, the Caribbean and the Social Summit*. Document No. LC/G.1954/Rev.1-P. ECLAC, Santiago, Chile.

Edwards, Sebastian. 1995. *Crisis and Reform in Latin America: From Despair to Hope*. Oxford University Press, New York.

Frank, Robert. 1997. "The frame of reference as a public good." *Economic Journal*, Vol. 107, No. 445, pp. 1832–1847.

Freeman, R. and L. Katz. 1993. "Rising wage inequality: The United States vs. other advanced countries." In R. Freeman (ed.), *Working Under Different Rules*. National Bureau of Economic Research (NBER) and Russell Sage, New York.

Gómez, Sergio and Emilio Klein (eds.). 1993. *Los pobres del campo: El trabajador eventual*. Facultad Latinoamericana de Ciencias Sociales (FLACSO) and Programa Regional del Empleo para América Latina y el Caribe (PREALC), Santiago, Chile.

Grossman, G. and E. Helpman. 1991. *Innovation and Growth in the Global Economy*. MIT Press, Cambridge, MA.

Haddad, L. and R. Kanbur. 1993. "How serious is the neglect of intra-household inequality?" *Economic Journal*, Vol. 100, No. 402, pp. 866–881.

Harrison, Ann and Gordon Hanson. 1999. "Who gains from trade reform: Some remaining puzzles." *Journal of Development Economics*, Vol. 59, No. 1, pp. 125–154.

Hirsch, F. 1976. *The Social Limits of Growth*. Harvard University Press, Cambridge, MA.

Inter-American Development Bank (IDB). 1998. *Economic and Social Progress in Latin America: Facing up to Inequality in Latin America*. IDB, Washington, DC.

———. 1997. *Economic and Social Progress in Latin America: Latin America After a Decade of Reforms*. IDB, Washington, DC.

———. 1996. *Economic and Social Progress in Latin America: Latin America After a Decade of Reforms*. IDB, Washington, DC.

International Monetary Fund (IMF). 2000. *IMF Survey, April 24*. IMF, Washington, DC.

Jaffee, Steven. 1993. *Exporting High-Value Food Commodities: Success Stories from Developing Countries*. World Bank Discussion Paper No. 198. World Bank, Washington, DC.

Johnson, Nancy L. and Vernon W. Ruttan. 1994. "Why are farms so small?" *World Development*, Vol. 22, No. 5, pp. 691–706.

Katz, Jorge. 2001. *Structural Reforms, Productivity and Technological Change in Latin America*. ECLAC, Santiago, Chile.

Kapur, Devesh, John P. Lewis and Richard Webb. 1997. *The World Bank: Its First Half-Century*. Brookings Institution Press, Washington, DC.

Korzeniewicz, Patricio and William C. Smith. 2000. "Poverty, inequality, and growth in Latin America: Searching for the high road to globalization." *Latin American Research Review*, Vol. 35, No. 3, pp. 7–54.

Korzeniewicz, R. and T. Moran. 1997. "World economic trends in the distribution of income, 1965–1992." *American Journal of Sociology*, Vol. 102, No. 4, pp. 1000–1039.

Krueger, Anne O. 1988. "The relationship between trade, employment and development." In Gustav Ranis and T. Paul Schultz (eds.), *The State of Development Economics: Progress and Perspectives*. Basil Blackwell, Oxford.

———. 1983. *Trade and Employment in Developing Countries, Volume 3, Trade and Employment in Developing Countries: Synthesis and Conclusions*. University of Chicago Press, Chicago.

———. 1978. *Foreign Trade Regimes and Economic Development: Liberalization Attempts and Consequences*. Ballinger, Cambridge, MA.

Kuhn, Thomas. 1962. *The Structure of Scientific Revolutions*. University of Chicago Press, Chicago.

Kuznets, Simon. 1955. "Economic growth and income inequality." *American Economic Review*, Vol. 45, No. 1, pp. 1–28.

Li, Hongyi, Lyn Squire and Heng-fu Zou. 1998. "Explaining international inequality and intertemporal variations in income inequality." *Economic Journal*, Vol. 108, No. 446, pp. 26–43.

Lindert, Peter H. and Jeffrey G. Williamson. 2001. *Does Globalization Make the World More Unequal?* NBER Working Paper Series, WP No. 8228. NBER, Cambridge, MA.

Lipton, Michael and Martin Ravallion. 1995. "Poverty and policy." In Jere Behrman and T.N. Srinivasan (eds.), *Handbook of Development Economics*, Volume 3B. Elseveir Science B.V., Amsterdam.

Little, I.M.D, Tibor Scitovsky and Maurice Scott. 1970. *Industry and Trade in Some Developing Countries*. Oxford University Press, London.

Londoño, Juan Luis. 1997. "Poverty, inequality and human capital development in Latin America, 1950–2025." In Shahid Javed Burki, Sebastian Edwards and Sri-Ram Aiyar (eds.), *Annual World Bank Conference on Development in Latin America and the Caribbean, 1995: The Challenges of Reform*. World Bank, Washington, DC.

Lora, Eduardo and Mauricio Olivera. 1998. *Macro Policy and Employment Problems in Latin America*. Document prepared for the seminar on Employment in Latin America: Problems and Solutions, Cartagena de Indias, Colombia, 15 March. IDB, Washington, DC.

Maddison, Angus and associates. 1992. *The Political Economy of Poverty, Equity and Growth: Brazil and Mexico*. World Bank and Oxford University Press, New York.

Milanovic, Branko. 2002. "True world income distribution, 1988 and 1993: First calculations based on household surveys alone." *Economic Journal*, Vol. 112, No. 476, pp. 51–92.

Martínez, Daniel. 1996. *Política de mercado de trabajo en la OCDE y en América Latina*. Documento de trabajo No. 42. Programa Regional del Empleo para América Latina y el Caribe (PREALC), Lima.

Martínez, Daniel and Julio Paz Cafetera. 1993. "Las políticas de ajuste y estabilización económica: Efectos esperados sobre el empleo y los ingresos rurales." In Jurgen Weller (ed.), *Maíz o melón? Las respuestas del agro centroamericano a los cambios de la política económica*. Programa Regional del Empleo para América Latina y el Caribe (PREALC), Santiago, Chile.

Morley, Samuel. 2001. *The Income Distribution Problem in Latin America and the Caribbean*. ECLAC, Santiago, Chile.

———. 1995. *Poverty and Inequality in Latin America: The Impact of Adjustment and Recovery in the 1980s*. Johns Hopkins University Press, Baltimore, MD.

———. 1994. *Poverty and Inequality in Latin America: Past Evidence, Future Prospects*. Overseas Development Council, Washington, DC.

Organización Internacional de Trabajo (OIT). 1999. *Panorama Laboral*. OIT, Lima.

———. 1996. *Panorama Laboral*. OIT, Lima.

Oswald, Andrew. 1997. "Happiness and economic performance." *Economic Journal*, Vol. 107, No. 464, pp. 334–349.

Pauly, Louis. 2002. "Enforcing the rules in a global economy: The emergence of structural conditionality in the World Bank and the International Monetary Fund." In Albert Berry (ed.), *Critical Issues in International Financial Reform*. Transaction Publishers, New Brunswick, NJ.

Peres, Wilson and Giovanni Stumpo. 1999. *Las Pequeñas y Medianas Empresas Industriales en América Latina Después de las Reformas Económicas*. Mimeo. ECLAC, Santiago, Chile.

Pritchett, Lant. 1996a. "Measuring outward orientation in developing countries: Can it be done?" *Journal of Development Economics*, Vol. 49, No. 2, pp. 307–335.

———. 1996b. *Where Has All the Education Gone?* Policy Research Working Paper 1581. Policy Research Department, World Bank, Washington, DC.

Quiggin, John. 2002. *Analysing Inequality: Changing Patterns of Resource Distribution Within the Global System*. Draft manuscript. Australian National University, Canberra.

Ranis, Gustav. 1978. "Equity with growth in Taiwan: How 'special' is the 'special' case?" *World Development*, Vol. 6, No. 3, pp. 397–409.

Ravaillon, Martin. 2001. *Growth, Inequality and Poverty: Looking Beyond Averages*. Mimeo. Development Research Group, World Bank, Washington, DC.

Robbins, D. 1996. *Evidence on Trade and Wages in the Developing World*. Technical Paper No. 119, December. Development Centre, Organisation for Economic Co-operation and Development (OECD), Paris.

Rodriguez, Francisco C. 2000. *Factor Shares and Resource Booms: Accounting for the Revolution of Venezuelan Inequality*. WIDER Working Paper No. 205. UNU/WIDER, Helsinki.

Rodriguez, Francisco and Dani Rodrik. 2000. "Trade policy and economic growth: A sceptic's guide to the cross-national evidence." In B. Bernanke and K. Rogoff (eds.), *NBER Macroeconomics Annual, 2000*. MIT Press, Cambridge, MA.

Rodrik, Dani. 2000. *Comments on "Trade, Growth and Poverty" by D. Dollar and Art Kraay*. Mimeo, October. Harvard University, Cambridge, MA.

———. 1996. *Has Globalization Gone too Far?* Institute for International Economics, Washington, DC.

Sachs, Jeffrey and Andrew Warner. 1995. "Economic reform and the process of global integration." *Brookings Papers on Economic Activity*, Vol. 1995, No. 1, 25th Anniversary Issue, pp. 1–95.

Sala-i-Martin, Xavier. 2002. *The Disturbing "Rise" of Global Income Inequality*. NBER, Cambridge, MA.

Scholte, Jan Aart. 2002. *The Sources of Neoliberal Globalisation*. Paper prepared for the UNRISD conference on Improving Knowledge on Social Development in International Organizations II, Prangins, Switzerland, 29–30 May.

Schultz, T. Paul. 1998. "Inequality in the distribution of personal income in the world: How is it changing and why?" *Journal of Population Economics*, Vol. 11, No. 3, pp. 307–344.

Scitovsky, Tibor. 1976. *The Joyless Economy*. Oxford University Press, Oxford.

Stallings, Barbara. 2000. *Social Science Research Council Items*, Vol. 1, No. 11, Summer, p. 8.

Stallings, Barbara and Wilson Peres. 2000. *Growth, Employment and Equity: The Impact of the Economic Reforms in Latin America and the Caribbean*. ECLAC and Brookings Institution, Washington, DC.

Stiglitz, Joseph. 2002. *Globalization and its Discontents*. W.W. Norton, New York.

Sunkel, Osvaldo and Gustavo Zuleta. 1990. "Neo-structuralism vs. neo-liberalism in the 1990s." *CEPAL Review*, No. 42, pp. 35–52.

Taylor, Lance. 2000. "External liberalisation, economic performance and distribution in Latin America and elsewhere." WIDER Working Paper, No. 215. UNU/WIDER, Helsinki.

United Nations Conference on Trade and Development (UNCTAD). 2002. *The Least Developed Countries Report 2002: Escaping the Poverty Trap*. UNCTAD, Geneva.

———. 1997. *Trade and Development Report 1997: Globalization, Distribution and Growth*. UNCTAD, Geneva.

United Nations Development Programme (UNDP). 1999. *Human Development Report 1999*. Oxford University Press, New York.

Wade, Robert. 2001. "Winners and losers." *The Economist*, 26 April.

Weller, Jurgen. 2001. *Economic Reforms, Growth and Employment: Labour Markets in Latin America and the Caribbean*. ECLAC, Santiago, Chile.

Wilcox Young, Linda. 1993. "Labour demand and agroindustrial development: The evidence from Mexico." *The Journal of Development Studies*, Vol. 30, No. 1, pp. 168–189.

Williamson, John. 1990a. *The Progress of Policy Reform in Latin America*. Institute for International Economics, Washington, DC.

———. 1990b. *Latin American Adjustment: How Much Has Happened?* Institute for International Economics, Washington, DC.

Wood, Adrian. 1994. *North-South Trade, Employment and Inequality*. Clarendon Press, Oxford.

World Bank. 2001. *World Development Report 2001/2: Attacking Poverty*. World Bank, Washington, DC.

———. 1998. *Beyond the Washington Consensus: Institutions Matter*. World Bank, Washington, DC.

———. 1995. *World Development Report: Workers in an Integrating World*. World Bank, Washington, DC.

Yeldan, A. Eric. 2000. *The Impact of Financial Liberalization and the Rise of Financial Rents on Income Inequality: The Case of Turkey*. WIDER Working Papers No. 206. UNU/WIDER, Helsinki.

Papers on **UNRISD Overarching Concerns**

PP UOC 5	**Methodological and Data Challenges to Identifying the Impacts of Globalization and Liberalization on Inequality** Albert Berry, October 2005
PP UOC 4	**In Quest of Sustainable Development** Solon L. Barraclough, September 2005
PP UOC 3	**Globalization, Liberalization and Equitable Development: Lessons from East Asia** Jomo K.S., July 2003
PP UOC 2	**Needs, Rights and Social Development** Rodolfo Stavenhagen, July 2003
PP UOC 1	**Toward Integrated and Sustainable Development?** Solon L. Barraclough, February 2001

Printed in Switzerland
GE.05-02637-October 2005-1,000

UNRISD/PPUOC5/05/2