1 Globalization and the distribution of wealth: problems and definitions

The new rich may worry about envy, but everyone should worry about poverty.

(*Economist*, 16 June 2001, 11)

Introduction

This book explores the complex relationship between the phenomena of globalization and the distribution of wealth, analysed through the prism of poverty and inequality, as a *political* problem in international relations. This relationship is a poorly understood phenomenon, since most of the literature on the subject derives from economics rather than from political science. Moreover, even serious economists are still debating whether the effects of globalization on poverty and inequality are generally positive or negative, which means that they could also be small or not significant at all (see Berry 2003a).

Despite the fact that such debate is one of the key contemporaneous political issues in international relations, it has been under-specified in the international relations and in the comparative politics literatures. In this sense, this book seeks to remedy this deficiency by focusing on a political framework that includes a clear definition and taxonomy of the three major concepts involved in the subject: 'globalization', 'poverty', and 'inequality'. It also specifies the hypotheses about the possible links between globalization and the distribution of wealth and tests these hypotheses in the context of Latin America in general, and Argentina in particular, in the years 1982–2008.

The main argument of this book is that politics plays a crucial role in our effort to make sense of the problematic effects of globalization upon domestic societies, as well as a vital part of the effort to tame globalization and to find proper solutions to its potential negative externalities, including poverty and inequality. Thus, I argue in this book that national governments act as 'transmission belts', mediating the impact of globalization upon their societies and citizenry. The stronger the states (in relation to their societies), the more effective they will be in providing 'good governance' and adequate solutions to cope with poverty and inequality. Consequently, variations in the effects of globalization upon poverty and inequality are best understood by examining the interplay of domestic politics and of international relations.

We need to assess the links between globalization and the distribution of wealth from a *political*, rather than economic or sociological, perspective. Furthermore, poverty and inequality are to be considered as international political problems, or even as global issues, so the debate about the links between globalization, poverty, and inequality should be contextualized within the structure of international relations.[1] In a similar vein, we should emphasize the differences between the economic and political perspectives on globalization, as opposed to the traditional typology of economic globalization and political globalization. Hence, this book offers a *political perspective* on processes of economic globalization and analyses their political manifestations and effects.

Economic globalization, manifested essentially through transnational flows of trade and finance, carries substantial political implications, both in terms of domestic politics (leading to political expressions of social protests and an entire range of social and economic national policies) and of international politics (in terms of global inequality and hierarchy between states, and mechanisms for global governance). As Albert Berry cogently argues, 'Economy theory tells us virtually nothing about the likely benefits of shifting from a situation of substantial trade and capital movements to near-free movement of goods and funds' (Berry 2003a, 24). This quotation emphasizes the fact that globalization and its effects (both political and economic) are in dispute between both practitioners and scholars, partly since it is a political concept and a peculiar political phenomenon loaded with distinct ideological perspectives and interpretations.

The research questions to be addressed in the book include the following. Why should we care about the distribution of wealth, assessed in terms of poverty and inequality? What are the implications in normative and practical terms? What is the nature of the links between globalization, poverty, and inequality and what are their causal mechanisms? Last, as Robert Gilpin (2000, 301) cogently frames the discussion, is it possible to evaluate the contradictory assessments of economic globalization and its consequences?

[1] I would like to thank Shelton Davis from the World Bank for his comments on this point.

Although we assume that there are complex and inter-related effects of globalization upon poverty and inequality, those effects are rather uneven and they do not always converge; hence, they should be disaggregated. In other words, globalization's impact on poverty will not necessarily go along with a similar effect on inequality. For instance, paradoxically, one of the major arguments and findings in this book is that globalization might reduce poverty while at the same time increasing inequality and the socio-economic gap between the 'haves' and the 'have-nots' (or 'have-less'). This truism reflects economic and social realities in different countries, such as China, India, Chile, and Brazil.[2]

Regardless of whether we are arguing for it or against it, I suggest that globalization has certainly placed the issues of poverty and inequality back and high on the contemporary political global agenda as *international negative externalities*. As Amartya Sen pointed out, one of the major problems of humanity nowadays is the distribution of potential benefits of globalization between rich and poor countries, and between different human groups within countries (see Sen 2009). In this sense, the distribution of wealth has become a crucial yardstick of the legitimacy and ethics of globalization, since it creates both winners and losers (Väyrynen 2008, 1; see also Munck 2007, 599).

In empirical terms, I examine the links between globalization, poverty, and inequality in the context of the economic and social realities of Latin America in general, and of Argentina in particular, with some further reference to the similar and different cases of Chile and Brazil. Much of the economic debate in Latin America at the turn of the twenty-first century has revolved around the effects of economic globalization and structural reform upon economic growth, poverty, and inequality. Poverty and inequality remain the major socio-economic problems of Latin America, with pernicious political implications and connotations, despite the impressive opening of the Latin American markets to the global economy and the encouraging trends of the 2000s in terms of reduction of both poverty and inequality.

Why is that the case? To what extent can we blame globalization for the exacerbation of poverty and inequality in the region? While there is an assumption that deeper integration into the world economy raises the potential for economic growth and for development, the Latin American experience since 1982 has suggested that growth does not necessarily lead to a reduction of poverty, but rather to pernicious effects in terms

[2] I would like to thank Robert Gilpin for his comments on this point.

of social welfare, with an increase of income inequality. Thus, during the 1990s, poverty and inequality have actually worsened in many countries of the region, breeding discontent as to the effects of globalization and economic reform upon poverty, living standards, and income distribution. Whether the exacerbation of poverty and inequality should be causally linked to the forces of globalization or to the (ir)responsibility of the national governments remains an important question to be addressed in the book.

The problematique *and its current salience*

Is globalization a force for equity or for exploitation? Can globalization bring about progress or backwardness, development or underdevelopment, poverty or affluence? How does globalization affect the distribution of wealth in general terms? What are the possible links between globalization and poverty in general, and between globalization and inequality in particular?

The widespread social and political movements against globalization became fashionable about ten years ago, as we witnessed during the virulent demonstrations against the global economic institutions at Seattle in 1999, Prague in 2000, and Quebec and Genoa in 2001. Although it is not entirely obvious what the vociferous opponents of globalization really demand, their claim that Third World poverty has become one of the most pressing moral, political, and economic issues in the political agenda of the new millennium is a legitimate one.

In addition to non-governmental organizations (NGOs) and other grassroots organizations, mainstream international institutions and organizations have also recognized the realities of Third World poverty and global inequalities as a pressing agenda, at least at the rhetorical level. For instance, the official institutions of the Bretton Woods post-World War II liberal regime, the International Monetary Fund (IMF) and especially the World Bank, have focused their discussions and operative plans in the last two decades on the eradication of poverty, or at least its reduction, as the ‘single greatest challenge of the century’.

Speaking about ten years ago at the plenary session of the 2000 Annual Meeting of the IMF and the World Bank held on 26–8 September 2000 in Prague, the governors representing the IMF’s 186 members acknowledged that ‘although globalization has brought opportunities for growth and development to both rich and poor countries, not everyone has been able to take advantage of the new opportunities’. The task facing the international community, the governors agreed, was to build a successful, truly global economy that works well for all people and addresses the widespread poverty that remains the 'unacceptable face of the global economic situation' (International Monetary Fund 2000, 23 October, 341). Similarly, the World Bank former President, James D. Wolfensohn, characterized 'globalization as an opportunity, and poverty as our challenge', though recognizing that globalization can relate to risks as well as to opportunities (Wolfensohn 2000, 308).

Nowadays, there seems to be a recognized *global* political agenda that focuses upon the importance of the links between globalization and poverty, as epitomized at the Millennium Summit at the United Nations headquarters in New York in September 2000 and the Monterrey Consensus of March 2002, while there is still a normative and even empirical disagreement about the precise nature and direction of those links. Among the values and principles mentioned in the 'Millennium Declaration' the possible links between globalization and poverty were emphasized as follows: 'The central challenge we face today is to ensure that globalization becomes a positive force for all [of] the world's people. Its benefits are unevenly shared, while its costs are unevenly distributed' (quoted in International Monetary Fund 2000, 23 October, 251). Furthermore, in a show of unguarded optimism about translating rhetorical intentions into an operative plan for development and for poverty eradication, the leaders of the world that gathered at New York City about ten years ago committed themselves to the following deadline: 'We further resolve to halve by 2015 the proportion of the world's people who earn less than one dollar a day, who suffer from hunger, and who lack access to safe drinking water' (quoted in International Monetary Fund 2000, 23 October, 251).

This brief sample of declarations of good intentions demonstrates that there has been such an emerging rhetorical consensus within the developed countries that we should seriously consider the links between globalization, poverty, and inequality, with its possible positive and pernicious implications, or at least that the developed countries bear some responsibility towards the alleviation of poverty and the diminution of inequality. Furthermore, there is also a normative consensus that globalization *should* fulfil a positive role as a potential panacea in reducing and eradicating poverty, and in decreasing inequality. At the same time, there is a vast disagreement about whether the link between globalization and poverty and inequality is a positive or a negative one. After all, different interpretations stem from divergent ideological, philosophical, moral, and theoretical approaches to international relations in general and to international political economy in particular, such as the inherent optimism of the Liberals in contrast to the radical pessimism of neo-Marxists (see Chapter 3).

Existing debates over globalization and the distribution of wealth: ideological and methodological

The debate over globalization and the distribution of wealth has been greatly distorted by the ideological writings of both hyper-globalists and especially of many radical Third World intellectuals. As a matter of fact, a logical and commonsensical economic analysis would suggest that any form of economic growth propelled by globalization might lead to two fundamental implications for the distribution of wealth.

The first one is that economic growth will create winners and losers. In other words, some well-positioned individuals, entrepreneurs, and states will become wealthier, while others are either not affected or will actually suffer a decline in wealth, becoming more impoverished. For example, the Chinese decision three decades ago to join an increasingly globalized world economy has obviously increased the wealth of many millions of Chinese. At the same time, there have been many who have lost from that decision or have experienced stagnation. Yet, the overall picture has been a substantial growth in the wealth of both China and a large proportion of its population, in terms of poverty reduction, but not of reducing inequality.

The second implication is that economic growth will not take place at all, since many societies, especially in sub-Saharan Africa, the Middle East and North Africa, and in some parts of Latin America, for political and other reasons, have not become part of the globalization process. The reasons are multiple, ranging from political corruption and political culture to a lack of adequate infrastructure and entrepeneurship. In this case, for the millions of individuals in this second group we cannot attribute the lack of economic growth and their poverty to globalization, unless we want to equate globalization with Western imperialism.[3]

Various empirical studies claim to prove that globalization increases both poverty and inequality, whereas numerous others claim to prove the contrary, namely that globalization has reduced poverty and inequality. Those in favour of globalization (the Liberals, represented by such international institutions as the World Bank and the International Monetary Fund) argue that there have been significant steps in the struggle against global poverty, as well as a decrease in inequality, in the last twenty years. For them, the globalization of trade and finance has been responsible for this success by prompting economic integration, lifting millions out of poverty, and closing the inequality gap, such as in the cases of China and India. Conversely, there are the critics of globalization (the Radicals),

[3] I would like to thank Robert Gilpin for his insights on this point.

who sustain that globalization has led directly to increases in poverty and inequality, deepening the gap between the rich and the poor within and between countries.

In empirical terms, poverty actually rose during the first stage of globalization (by the end of the nineteenth century), but it continued to increase during World War I and World War II, even when the international economy withdrew from globalization. During the contemporary stage of globalization (since the late 1970s), there is clear evidence that extreme poverty has been gradually falling, mostly in Eastern and Southern Asia, and especially in China and India.

According to World Bank statistics, since 1980 there has been a clearly identifiable trend of declining numbers in extreme poverty; in 1981, the number of people living on less than $1 a day was 1.451 billion, compared to 1.1 billion in 2007, while world population grew at the time by 2 billion people (quoted in Glenn 2007, 157; see also Goldin and Reinert 2007, 21). Bourguignon and Morrison (2002) estimate that the number of people living in absolute poverty (defined as those people who live on less than $2 a day) was reduced by 100 million, between 1980 and 1992. Similarly, Chen and Ravaillon (2001) assess that there was a further fall of about another 100 million between 1993 and 1998.

Moreover, in relative terms, absolute poverty has declined significantly due to a significant population growth between 1970 and 1998. In other words, while in 1970 about 40 per cent of the world's population was living in absolute poverty, that percentage diminished to just 24 per cent in 1998 (De la Dehesa 2007, 110–11). Overall, we could then agree with the World Bank's report of 2007 that 'The last quarter-century, a time of unprecedented integration for the global economy, has witnessed a dramatic rise in standards of living around the world' (World Bank 2007, 29). Thus, the world has seen an unprecedented era of economic growth over the past three decades, which has made people better off, on average, leading to the reduction of world poverty, though not necessarily of world inequality.

Furthermore, economists such as Dollar and Kraay (2002) and Sala-i-Martin (2006) argued that there is ample empirical evidence that economic globalization has also reduced inequality, not just poverty. As a counterpoint to these optimistic assessments, Wade (2002) challenged those findings in his reading of the trends in poverty and income distribution. His strong conclusion about the magnitude and trend in world poverty and income distribution is that we must be agnostic, on the grounds that our current statistics are too deficient to yield a definitive answer in one direction or another.

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In contrast to the widely shared notion that world poverty has been falling over the last thirty years and more, there is much more disagreement regarding the empirical measurements of inequality. Some economists might argue that income inequality (within countries) has been on the rise – or stagnant at best – in most countries since the early 1980s. Inequality rose in both developed countries (in sixteen out of the twenty rich Organisation of Economic Co-operation and Development (OECD) countries), as well as in China and other developing countries. Interestingly enough, in key Latin American countries such as Brazil and Argentina, there has been a sustained decrease in inequality over the recent decade (see Milanovic 2011, 7–11).

In sum, the assumption that the structural forces of globalization, including the market, the dissemination of science, and the spread of technology, will resolve the problems of inequality and poverty is not completely convincing, considering the lingering reality of more than a billion people living (or better, surviving) in absolute or even extreme poverty. Conversely, left-wing activism, from the sometimes unfairly discredited approaches of *dependencia* to the romanticism about the universe of the marginalized, has still to offer a serious and convincing answer to the actual links between globalization, poverty, and inequality (Nürnberger 1999, 5).

Both sides of the globalization debate have had a tendency to claim an unreasonable degree of causation between liberalizing policies in trade and financial flows and observed trends in poverty and inequality, while supporting their theoretical claims with their own statistical facts. Yet, economic globalization remains a deeply political controversial process, in the sense that neither the theory nor the empirical evidence on globalization and the distribution of wealth allow us to draw simple (or simplistic) conclusions about those links in any definitive manner.

As Aisbett (2007, 34) argues, people's interpretation of the available evidence is strongly influenced by their values and beliefs about globalization itself. Hence, the statistical debate remains an inconclusive intellectual exercise, so we should turn to other forms of analysis, particularly the *political dimension*, as a more interesting and promising avenue of inquiry (see Goldin and Reinert 2007, 21; Mills 2009, 1; and Neutel and Heshmati 2006, 2). The economic discussion about whether globalization leads to more or less poverty has to be transcended. In general, one can argue that in absolute terms the number of poor people in the world has decreased, while at the same time inequality has increased; both within states and across states, this carries significant political implications.

There are a myriad of studies dealing with globalization and poverty in separate ways, and there is an emerging literature linking globalization, poverty, and inequality in broad terms. Much of this research draws upon studies of political economy and international economics; it is usually conducted by economists and sociologists, rather than by political scientists and international relations scholars. Just to mention a few important studies: (1) Joseph Stiglitz, *Globalization and its Discontents* (2002), and (2) Joseph Stiglitz, *Making Globalization Work* (2007). These two popular books partly focus upon the links between globalization and poverty, suggest policy recommendations (to reform globalization), and are based upon the experience of the author as a former World Bank official. (3) Abhijit Vinakat Banerjee, Roland Bénabou, and Dilip Mookherjee (eds.), *Understanding Poverty* (2006); (4) Machiko Nissanke and Erik Thorbecke (eds.), *The Impact of Globalization on the World's Poor* (2006); and (5) Ann Harrison (ed.), *Globalization and Poverty* (2007). These three collections of distinguished economists focus upon the economic analysis of the links and transmission mechanisms (causal chains) between globalization and poverty, such as trade, financial integration, capital flows, and diffusion of technology, but without emphasizing much of the political context, either domestic or international. (6) Raphael Kaplinsky, *Globalization, Poverty, and Inequality: Between a Rock and a Hard Place* (2005). This original book poses a causal link between globalization and poverty, by focusing on the mobility of investment and the theory of global value chains. But, again, the argument is eminently economical rather than political, and, to some extent, even biased against globalization. (7) Guillermo De la Dehesa, *What Do We Know about Globalization? Issues of Poverty and Income Distribution* (2007). The prevailing approach of this book relies on both the professional economics literature and on empirical evidence. It is a sober assessment of the implications of globalization for poverty and for development. (8) John Rapley, *Globalization and Inequality: Neoliberalism's Downward Spiral* (2004). This book indeed refers to the political implications of globalization and of neoliberalism upon the Third World states. Even though it presents an important political analysis, the author does not put much emphasis upon poverty and inequality.

The missing link: developing a political intermestic *model*

In contrast to these economic analyses, I offer in this book a particular political *intermestic* model. I argue that in order to understand the links between globalization, poverty, and inequality we should focus upon the role of the state in relation to both the external and domestic environments, framing the national policies. Those policies act as critical variables to reap the benefits of globalization and to cope with its adverse effects.

Even though the effects of economic globalization along several social dimensions are deemed benign, on balance, rather than malign, we need *political institutions*, first and foremost national governments and state institutions themselves, to confront, monitor, and balance globalization, in order to maximize the positive potential outcomes that it might achieve. Thus, the choice for national governments is not how to confront globalization, but rather how to manage it and channel it for positive results within their own societies (Haass and Litan 1998; and Stiglitz 2002, 218), and among themselves, through mechanisms of global governance.

In this book, I develop an *intermestic* model that improves upon the alternative and usual explanations for the links between globalization, poverty, and inequality. This model stems from a Realist approach in international relations, but it adds to it and transcends it by specifically referring to the interactions between the external and the domestic domains. The *external* domain focuses upon the position of the state in the regional and international structures, especially with reference to the global economy and to globalization processes, and the relationships between a given state and the regional and global institutions. The *domestic* domain refers to the social and economic stratification within societies, as well as to the political divisions within the different states, alongside state–society relations that are mainly characterized by the level of strength (or weakness) of any particular state in relation to its own society (see Holsti 1996; and Kacowicz 1998).

The *intermestic* model has to be spelled out by referring to the state as a critical (but not always effective) *active transmission belt* or intermediary actor, between the structural forces of economic globalization and the structural domestic characteristics of a given society, plagued sometimes by poverty and social and economic inequalities. In this analysis, the state is not merely a conduit but rather an active agent, which absorbs the effects of globalization and other external factors, and then translates and internalizes them into specific ideologies, strategies, and policies articulated by the national government.[4]

In empirical terms, the model has to be examined through different policies (social and economic) adopted by different governments over time in order to cope with poverty and inequality, including welfare, education, health, employment, social security, taxes, and fiscal and monetary policies, keeping in mind the huge differences between what the state would like to do, and what it actually does in practice. Furthermore, states as active 'transmission belts' might *redistribute wealth*, by transferring income, wealth, or property from some individuals to others within societies through monetary policies, taxation, welfare, nationalization, or charity.

[4] I would like to thank Mor Mitrani for her insights on this point.