

# Comments

**Samuel Freije:** The question of the relation between globalization and income distribution (and poverty in particular) is extremely difficult to answer for at least two reasons. First, globalization is a multidimensional phenomenon with interacting economic, political, and social manifestations, all of which can be argued to have conflicting impacts on poverty. The marginal effects, or even the net effects, are therefore likely to be difficult to identify. Second, there is no easy counterfactual with which to compare. That is, one cannot observe what poverty would have been today had globalization not occurred. In econometrics terminology, the former is akin to a problem of endogenous and unobserved explanatory variables, whereas the latter resembles a problem of missing observations. The authors deal with the problem of studying a cross-disciplinary phenomenon by concentrating on economic aspects of globalization only and reporting the results from several studies, each of which addresses a different economic aspect. They handle the lack of counterfactuals by comparing Latin American countries with different trade intensity ratios over the last two decades. These methodological decisions entail the main limitations of the study, on which I comment below. I conclude with the main findings of the article.

The paper refers only to the economic aspects of globalization. However, the authors do not make an explicit statement of what they understand by globalization. They simply call it “greater openness” in trade of goods, services, and factors of production. How this greater openness influences economic growth and income distribution is the link through which they relate globalization to poverty. This means their discussion leaves out other aspects of globalization that may also have an impact on the poor, such as the environmental, political, and social aspects. In this regard, some researchers have studied how changes in trade openness or immigration affect the political consensus for funding social transfers. The relative shares of winners and losers of greater openness have important implications for the political coalitions that

can be formed for passing different pieces of legislation, both for opening the economy and for redistributing the gains from trade.<sup>1</sup> Similarly, environmental degradation and the disappearance of indigenous languages are aspects of globalization that have an impact on the poor. Indigenous peoples are usually overrepresented among the poor, precisely because of their inability to participate in transactions that take place in languages foreign to their culture and because they are segregated to lands that are environmentally degraded or vulnerable to degradation.

Focusing on economic aspects such as trade, migration, and technology diffusion raises the question of whether these facts are new. Economic historians note that globalization is not a new phenomenon. On the contrary, several waves of globalization and antiglobal intervals can be identified through history. Williamson distinguishes two great globalization waves: the 1820–1913 period, which starts with the end of the Napoleonic wars and ends with the outbreak of World War I, and the current globalization wave, which started with the end of World War II.<sup>2</sup> The historical evidence shows that the impact of globalization on inequality and poverty depends on the type of globalization (that is, whether it occurred through migration or trade) and the characteristics of the country (that is, whether it was land or labor scarce). This long view allows the identification of complex patterns over time and across countries. During the first wave, land-scarce countries favored opening the economy to trade so that relative food prices would decline, whereas land-abundant countries favored migration so that relative wages would decline. These two trends most likely improved the living standards of the poor among the countries that engaged in this wave of globalization.

The comparison of trade intensity ratios with growth performance and poverty rates over the last two decades does not allow the authors to formulate a clear answer to the question posited. This is because they make no comparison with other periods of Latin American economic history (and little systematic comparison with other regions of the world). Is the current relation between globalization and poverty in Latin America in the last two decades different from the relation these variables showed in the postwar period? Is it different from the experience in the early nineteenth century? The authors recognize differences across regions. (For example, they state that “the poor in sub-Saharan Africa were essentially bypassed by the forces of globalization, while most of the Asian poor benefited—none more so than

1. See, for instance, Bowles (2006); Boix (2006); Soroka, Banting, and Johnston (2006).

2. Williamson (2003).

in China. Latin America occupies an intermediate position in this continuum.”) However, they offer no systematic explanation of why this happened. Was it because Latin America is natural resource abundant whereas Asia is labor abundant, and the current globalization wave has concentrated on liberalizing the trade of labor-intensive manufactured goods?

Despite these limitations, the study offers an important conclusion for academics, policymakers, and the public: institutions have a central role in intermediating the relationship between globalization and poverty. In several parts of their study, the authors highlight the importance of institutions such as labor legislation, public provision of basic education and health, property rights, social assistance, and social insurance programs. The design of these institutions may either hinder or enhance the gains to the poor during the globalization process. The authors refer to several country studies that show how a given institution may serve as a mechanism for compensating the losers (for example, social assistance) or prevent the potential beneficiaries from benefiting from globalization (for example, the lack of land titling and property rights).

The authors join several other studies in highlighting the fact that the benefits of globalization for the poor depend crucially on the compensating mechanisms that societies institute.<sup>3</sup> Standard trade theory holds that trade generates net benefits for a society and that there are winners and losers, but it does not explain how the former may compensate the latter. Thorbecke and Nissanke make a forceful statement in concluding that “a passive approach to globalization cannot ensure that poverty will be reduced.”

**Guido Porto:** This interesting paper by Erik Thorbecke and Machiko Nissanke investigates the impact of globalization on the poor in Latin America. The paper is part of a more comprehensive project launched by WIDER a few years ago. An initial set of papers, published in a special issue of *World Development*, discusses the overall transmission mechanisms from globalization to poverty. Several regional studies document the details of this link for different parts of the world. This paper presents an overview of the process of globalization in Latin America and then summarizes the main findings from several papers from the Latin American regional project.

The paper has three main parts. The first part describes the main transmission mechanisms from globalization to poverty. The second part reviews the

3. See Bourguignon and Morrison (2002); and Bardhan, Bowles, and Wallerstein (2006).

socioeconomic performance of Latin America during the latest wave of globalization (1980–2006). Finally, the last part of the paper reviews findings from selected case studies for Latin America commissioned by WIDER, in order to explore the role of institutions to improve the pass-through from globalization to poverty in the region. The authors do a good job of providing an overall idea of the main issues, a quick overview of the region's performance during the globalization era, and a summary of the conclusions from the case studies. This paper has significant value in terms of lessons on poverty trends during the recent globalization era in Latin America.

My main concern with the paper is the relative disconnect between the process of globalization and its impact on poverty—supposedly the main theme of the work. This sense of disconnect arises in different parts of the paper. The theoretical discussion is a bit too general. While an overview of the mechanisms is useful, I would have liked to see a discussion of those mechanisms that are relatively more important for Latin America. For example, this section could have emphasized the links between openness and growth that are specific to Latin America. The authors could also have advanced some insights on, say, the relative importance for Latin America of the variables on the left of figure 1 (regarding the general link between globalization and openness).

The review of the region's socioeconomic performance, in contrast, is more closely tied to globalization. The authors use trade intensity ratios to portray the main features of the globalization era in the region. While, as the authors argue, trade intensity is an imperfect measure of globalization, it is a good starting point. This section illustrates that globalization is taking place in the region, although naturally at a slower pace than in East Asia; that growth during this period did not actually follow suit, for various reasons; that there are hints of a process of convergence in inequality across Latin American countries; and that little progress in terms of poverty reduction has been achieved in the region, especially during the last ten years or so.

The relative disconnect between globalization and poverty returns when the authors review eight of the case studies from the regional WIDER project. Two of these papers are obviously related to globalization: Ferreira, Leite, and Wai-Poi, on trade liberalization in Brazil, and Field and Field, on the role of property rights and exportable commodities in Peru.<sup>1</sup> In contrast, four of the papers are only vaguely related to globalization: Kakwani, Côrtes

1. Ferreira, Leite, and Wai-Poi (2007); Field and Field (2007).

Neri, and Son, on growth patterns and inequality in Brazil; Skoufias, Lindert, and Shapiro, on the redistributive effects of public transfers; Popli, on trends in inequality and poverty among the self-employed in Mexico; and Macours and Vakis, on seasonal migration and early childhood development in Nicaragua.<sup>2</sup> In the remaining two papers, Aguayo-Tellez, Muendler, and Poole, on internal migration in Brazil, and de la Fuente, on international remittances in Mexico, the link to globalization is somewhat more straightforward, though not obvious to me.<sup>3</sup>

There is always a link to globalization in this section because all the papers reviewed here explore their respective topics within large shocks, shocks that—the authors argue—are embedded in the globalization process. Still, the link to globalization is sometimes vague and at other times weak. To some extent, this disconnect is unavoidable: globalization is a broad concept, so I suppose that any shock to the economy can directly or indirectly be related to some aspect of the globalization process. In the end, despite these limitations, the section is valuable and makes a considerable contribution to the paper.

Finally, I regret that the authors did not extract more from the case studies. Their review is structured around narratives of the findings of each of the case studies (nicely arranged around complementarities with institutions). It would have been interesting to add quantitative information, as well, to give a sense of the importance of each mechanism and to provide a deeper notion of the results in the case studies.

2. Kakwani, Côrtes Neri, and Son (2008); Skoufias, Lindert, and Shapiro (2008); Popli (2008); Macours and Vakis (2008).

3. Aguayo-Tellez, Muendler, and Poole (2008); de la Fuente (2008).

## References

- Aghion, Philippe, Eve Caroli, and Cecilia García-Peñalosa. 1999. "Inequality and Economic Growth: The Perspective of the New Growth Theories." *Journal of Economic Literature* 37(4): 1615–660.
- Aguayo-Tellez, Ernesto, Marc-Andreas Muendler, and Jennifer Pamela Poole. 2008. "Globalization and Formal Sector Migration in Brazil." WIDER Research Paper 2008/22. Helsinki: United Nations University, World Institute for Development Economics Research.
- Baldwin, Richard E., and Philippe Martin. 1999. "Two Waves of Globalization: Superficial Similarities, Fundamental Differences." In *Globalization and Labor*, edited by Horst Siebert. Institut für Weltwirtschaft an der Universität Kiel.
- Bardhan, Pranab, Samuel Bowles, and Michael Wallerstein. 2006. "Conclusion." In *Globalization and Egalitarian Redistribution*, edited by Pranab Bardhan, Samuel Bowles, and Michael Wallerstein, pp. 306–18. New York: Russell Sage Foundation.
- Basu, Kaushik. 2003. "Globalization and Marginalization: Re-examination of Development Policy." Working Paper 026. Cambridge, Mass.: Bureau for Research in Economic Analysis of Development.
- Birdsall, Nancy. 2002. "A Stormy Day on an Open Field: Asymmetry and Convergence in the Global Economy." In *Globalisation, Living Standards, and Inequality: Recent Progress and Continuing Challenges*, edited by David Gruen, Terry O'Brien, and Jeremy Lawson. Sydney: Reserve Bank of Australia.
- . 2006. "The World Is Not Flat: Inequality and Injustice in our Global Economy." WIDER Annual Lecture 2005. Helsinki: United Nations University, World Institute for Development Economics Research.
- Boix, Carles. 2006. "Between Redistribution and Trade: The Political Economy of Protectionism and Domestic Compensation." In *Globalization and Egalitarian Redistribution*, edited by Bardhan, Bowles, and Wallerstein, pp. 192–216.
- Bourguignon, François. 2004. "The Poverty-Growth-Inequality Triangle." Working Paper 125. New Delhi: Indian Council for Research on International Economic Relations.
- Bourguignon, François, and Christian Morrison. 2002. "Inequality among World Citizens: 1820–1992." *American Economic Review* 92(4): 727–44.
- Bowles, Samuel. 2006. "Economic Integration, Cultural Standardization, and the Politics of Social Insurance." In *Globalization and Egalitarian Redistribution*, pp. 120–47.
- Culpeper, Roy. 2005. "Approaches to Globalization and Inequality within the International System." Overarching Concerns Programme Paper 6. Geneva: United Nations Research Institute of Social Development.
- De Ferranti, D., and others. 2004. *Inequality in Latin America and the Caribbean: Breaking with History?* Washington: World Bank.

- De la Fuente, Alejandro. 2008. "Remittances and Vulnerability to Poverty in Rural Mexico." WIDER Research Paper 2008/17. Helsinki: United Nations University, World Institute for Development Economics Research.
- Diwan, I. 2001. "Debt as Sweat: Labor, Financial Crises, and the Globalization of Capital." Washington: World Bank.
- Dollar, David. 1992. "Outward-Oriented Developing Economies Really Grow More Rapidly: Evidence from 95 LDCs, 1976–85." *Economic Development and Cultural Change* 40(3): 523–44.
- Dollar, David, and Aart Kraay. 2002. "Growth Is Good for the Poor." *Journal of Economic Growth* 7(3): 195–225.
- . 2004. "Trade, Growth, and Poverty." *Economic Journal* 114(493): F22–F49.
- ECLAC (Economic Commission for Latin America and the Caribbean). 2004. *A Decade of Social Development in Latin America, 1990–1999*. Santiago: ECLAC.
- Ferreira, Francisco H. G., Phillippe G. Leite, and Julie A. Litchfield. 2006. "The Rise and Fall of Brazilian Inequality: 1981–2004." Policy Research Working Paper 3867. Washington: World Bank.
- Ferreira, Francisco H. G., Phillippe G. Leite, and Matthew Wai-Poi. 2007. "Trade Liberalization, Employment Flows, and Wage Inequality in Brazil." WIDER Research Paper 2007/58. Helsinki: United Nations University, World Institute for Development Economics Research.
- Ferreira, Francisco H. G., and Martin Ravallion. 2008. "Global Poverty and Inequality: A Review of the Evidence." Policy Research Working Paper 4623. Washington: World Bank.
- Field, Alfred J., and Erica Field. 2007. "Globalization, Crop Choice, and Property Rights in Rural Peru, 1994–2004." WIDER Research Paper 2007/72. Helsinki: United Nations University, World Institute for Development Economics Research.
- Galiani, Sebastian, and Guido G. Porto. 2009 (forthcoming). "Trends in Tariff Reforms and Trends in the Structure of Wages." *Review of Economics and Statistics*.
- Gindling, T. H., and Katherine Terrell. 2008. "Minimum Wages, Globalization, and Poverty in Honduras." WIDER Research Paper 2008/23. Helsinki: United Nations University, World Institute for Development Economics Research.
- Goldberg, Pinelopi K., and Nina Pavcnik. 2004. "Trade, Inequality, and Poverty: What Do We Know? Evidence from Recent Trade Liberalization Episodes in Developing Countries." *Brookings Trade Forum*: 223–69.
- Harrison, Anne, and Gordon Hanson. 1999. "Who Gains from Trade Reform? Some Remaining Puzzles." *Journal of Development Economics* 59(1): 125–54.
- Hirschman, Albert. 1958. *The Strategy of Economic Development*. Yale University Press.
- Kakwani, Nanak, and Ernesto M. Pernia. 2000. "What Is Pro-Poor Growth?" *Asian Development Review* 16(1): 1–16.

- Kakwani, Nanak, Marcelo Côrtes Neri, and Hyun H. Son. 2008 (forthcoming). "Linkages between Pro-Poor Growth, Social Programs, and Labor Market: The Recent Brazilian Experience." WIDER Research Paper. Helsinki: United Nations University, World Institute for Development Economics Research.
- Kaldor, Nicholas. 1956. "Alternative Theories of Distribution." *Review of Economic Studies* 23(2): 83–100.
- Kose, M. Ayhan, and others. 2006. "Financial Globalization: Reappraisal." Working Paper 06/189. Washington: International Monetary Fund.
- Ligon, Ethan. 2006. "Poverty and the Welfare Costs of Risk Associated with Globalization." *World Development* 34(8): 1446–457.
- Macours, Karen, and Renos Vakis. 2008. "Seasonal Migration and Early Childhood Development." WIDER Research Paper 2008/48. Helsinki: United Nations University, World Institute for Development Economics Research.
- Milanovic, Branko. 2005. "Half a World: Regional Inequality in Five Great Federations." Policy Research Working Paper 3699. Washington: World Bank.
- Montalbano, Pierluigi, and others. 2006. "Trade Openness and Vulnerability in Central and Eastern Europe." In *The Impact of Globalization on the World's Poor: The Transmission Mechanisms*, edited by Machiko Nissanke and Erik Thorbecke, chapter 9. Basingstoke: Palgrave Macmillan.
- Myrdal, Gunnar. 1957. *Economic Theory and Underdevelopment Regions*. London: Hutchinson.
- Naschold, Felix. 2004. "Growth, Distribution, and Poverty Reduction: LDCs Are Falling Further Behind." In *Growth, Inequality, and Poverty*, edited by Anthony Shorrocks and Rolph van der Hoeven. Oxford University Press and WIDER.
- Nissanke, Machiko, and Howard Stein. 2003. "Financial Globalization and Economic Development: Towards an Institutional Foundation." *Eastern Economic Journal* 29(2): 287–308.
- Nissanke, Machiko, and Erik Thorbecke. 2006a. "The Impact of Globalization on the World's Poor." *World Development* 34(8): 1333–337.
- . 2006b. *The Impact of Globalization on the World's Poor: The Transmission Mechanisms*. Basingstoke: Palgrave Macmillan.
- . 2008. "Comparative Analysis of the Globalization-Poverty Nexus in Asia, Africa, and Latin America." Helsinki: United Nations University, World Institute for Development Economics Research.
- Obstfeld, Marice, and Alan M. Taylor. 2002. "Globalization and Capital Markets." Working Paper 8846. Cambridge, Mass.: National Bureau of Economic Research.
- Popli, Gurleen K. 2008. "Trade Liberalization and the Self-Employed in Mexico." WIDER Research Paper 2008/05. Helsinki: United Nations University, World Institute for Development Economics Research.
- Prasad, Eswar S., and others. 2003. "Effects of Financial Globalization on Developing Countries: Some Empirical Evidence." Occasional Paper 220. Washington: International Monetary Fund.



- Pritchett, Lant. 1996. "Measuring Outward Orientation in LDCs: Can It Be Done?" *Journal of Development Economics* 49(2): 307–35.
- Ravallion, Martin. 2004a. "Competing Concepts of Inequality in the Globalization Debate." Policy Research Working Paper 3243. Washington: World Bank.
- . 2004b. "Pro-Poor Growth: A Primer." Policy Research Working Paper 3242. Washington: World Bank.
- Rodríguez, F., and D. Rodrik. 1999. "Trade Policy and Economic Growth: A Skeptic's Guide to the Cross-National Evidence." Working Paper 7081. Cambridge, Mass.: National Bureau of Economic Research.
- Rosenstein-Rodan, Paul. 1943. "Problems of Industrialization of Eastern and South-Eastern Europe." *Economic Journal* 53(210–11): 202–11.
- Sachs, Jeffrey D., and Andrew Warner. 1995. "Economic Reform and the Process of Global Integration." *Brookings Papers on Economic Activity* 1: 1–118.
- Sahn, David E., and Stephen D. Younger. 2006. "Changes in Inequality and Poverty in Latin America: Looking beyond Income." *Journal of Applied Economics* 9 (November): 215–34.
- Sáinz, Pedro. 2006. "Equity in Latin America since the 1990s." Working Paper 22. New York: United Nations, Department of Economic and Social Affairs.
- Sánchez, Omar. 2003. "Globalization as a Development Strategy in Latin America?" *World Development* 31(12): 1977–995.
- Sindzingre, Alice. 2006. "Explaining Threshold Effects of Globalization on Poverty: An Institutional Perspective." In *The Impact of Globalization on the World's Poor: The Transmission Mechanisms*.
- Skoufias, Emmanuel, Kathy Lindert, and Joseph Shapiro. Forthcoming. "Globalization and the Role of Public Transfers in Redistributing Income in LAC." WIDER Research Paper. Helsinki: United Nations University, World Institute for Development Economics Research.
- Soroka, Stuart, Keith Banting, and Richard Johnston. 2006. "Immigration and Redistribution in a Global Era." In *Globalization and Egalitarian Redistribution*, pp. 261–88.
- Tanzi, Vito. 2001. "Globalization and the Work of Fiscal Termites." *Finance and Development* 38(1): 34–37.
- Thorbecke, Erik. 2006. "Economic Development, Equality, Income Distribution, and Ethics." In *Handbook of Behavioral Economics*, edited by Morris Altman. Armonk, N.Y.: M. E. Sharpe.
- Thorbecke, Erik, and Chutatong Charumilind. 2002. "Economic Inequality and Its Socioeconomic Impact." *World Development* 30(9): 1477–495.
- Williamson, Jeffery G. 2003. "Globalization, Income Distribution, and History." ISER 2003 lecture. University of Siena, International School of Economic Research.
- Winters, L. Alan, Neil McCulloch, and Andrew McKay. 2004. "Trade Liberalization and Poverty: The Evidence So Far." *Journal of Economic Literature* 42(1): 72–115.

- Woodward, David, and Andrew Simms. 2006. "Growth Is Failing the Poor: The Unbalanced Distribution of the Benefits and Costs of Global Economic Growth." Working Paper 20. New York: United Nations, Department of Economic and Social Affairs.
- World Bank. 2002. *Globalization, Growth, and Poverty*. Oxford University Press for the World Bank.