**ARTICLE 3**

**Introduction to Globalisation?**

**Economic Development, Global Inequality and Globalisation**

Read the following articles below about economic development, global inequality and Globalisation and provide a summary mind map below for each article, highlighting the main points (1 to 1.25 hours)

**ARTICLE 1**

**What is Development?**

**ARTICLE 2**

**Global Inequality**

**ARTICLE 1: What is Development?**

Economic growth is an increase in Real GDP. It means the national income / national output is increasing. With higher GDP, there is, ceteris paribus, an improvement in economic welfare. Higher GDP means an increase in national output / income / expenditure. Higher real GDP per capita means on average people should have greater purchasing power. Higher incomes could be a key factor in enabling people in developing economies to have a better standard of living (e.g. better diet, housing e.t.c). Without an increase in real GDP, there are always going to be limitations to economic development.

However, economic development implies an increase in economic welfare. Here economic welfare comprises many elements other than just income and output. Economic welfare is concerned with issues such as:

* **Absolute Poverty.** Do people have sufficient resources to maintain healthy diet and basics of life such as shelter? Economic growth may be essential to enable higher incomes for people to be able to buy more food. However, economic growth doesn’t necessarily improve everyone’s living standards. Economic growth could bypass the poorest sections of society because they don’t have the ability to take part. A key issue is whether the benefits of economic growth are equitably distributed amongst different groups of society.
* **Education and health standards.** e.g. literacy rates and life expectancy. Economic growth may enable more money to be spent on education and healthcare. However, there is no guarantee that the proceeds of growth will be used to improve education or healthcare standards. There is often a weak correlation between GDP, literacy rates and life expectancy
* Environmental Protection: Economic growth can actually harm the environment and people’s living standards.
* **Transport / Infrastructure:** Economic development would require improvements in infrastructure and transport. This may be important for regions which may be cut off from the main areas of economic growth.
* **Environmental Standards:** Economic growth which causes increased pollution can actually damage living standards and hold back economic development. Also, if growth is caused by cutting down trees, it could actually harm economic development in the long term.

**Conclusion**

Economic growth can definitely help economic development e.g. creating more money for

* Public services like education / health care
* Improving incomes so people can have better living standards.

However, it depends on the nature of economic growth.

* Are the proceeds of growth used to improve living standards and therefore does everyone benefit from the higher GDP or are the proceeds kept by a small %?
* Does greater income necessarily lead to higher living standards?

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| TASK: READ THE ARTICLE ABOVE. How might this photo tell us about why the concept of ‘development’ is a contested concept? |  |

**ARTICLE 2: Global Inequality**

**Introduction**

Traditionally, global inequality has been about the “have’s” and “have not’s”. On one hand you have the developed (core, rich, first world, Western, advanced) countries such as the USA, Japan, Germany and the UK. On the other hand you have the developing countries (periphery, poor, third world, Global South, majority world, LEDC’s) such as Zambia, Somalia, China, India etc. Studies have looked at the growing disparities in wealth and development between these two groups of countries for many years. However more recently there has been change. A new group is emerging, moving away from it’s “poor” economic status and is emerging to challenge (some say threaten) the Western/rich nations and the existing global status quo.

Therefore maybe there are now three tiers of inequality?

1. **Developed nations – MEDC’s:** (UK, USA, countries in the EU) – dominant nations who have been wealthy (and more powerful militarily for 100-200 years. These countries suffer from growing levels of obesity, mental health etc.
2. **Emerging nations** **– MEDC’s/LEDC’s?:** (India and China) – these countries have taken great strides in previous years to industrialise on a mass scale through exporting goods
3. **“Bottom billion”** **– LEDC’s:** (Ethiopia, Zambia, Somalia) – these are countries who remain stagnant, are prevented from developing further with perhaps a large proportion of

**The Bottom Billion**

With this in mind, scholars have been debating the idea of a poverty trap to explain why certain economies are stagnating and being left behind. This is a controversial theory and some economists say the new inequality is down to a poverty trap (Jeffery Sachs) whilst others say there is no evidence for poverty traps (Bill Easterly).

To explain the traditional form of poverty trap, there are several key terms that you will need to know about: productivity and subsistence farming. Productivity is how much one person (or a group) produces in a given time period. Factors that determine how productive you are might be technological availability, health, nutrition etc. Subsistence farming is where families produce just enough to feed themselves and that’s it. No more for trading or earning extra income. Many of the poorest people in the world are farmers. They are working on small plots of land, whether in Africa or in Asia or in the Andes Mountains, producing (or not!) enough food to feed themselves, much less to bring the food to market. This is the dominant condition of the world's poor: rural, agrarian, poverty, smallholder farmers that lack the basic productivity to earn a livelihood and even to feed their families.

When farmers become more productive (i.e. can work harder because of better health and access to regular food supplies coupled with access to improved technology) they can produce more in a given time period. This gives them not only enough food for their families but also extra to trade with. As they receive more income from the trade, they are able to afford to send their children to the doctor or to schools. In more general terms as soon as a population in a nation has a solid food and water supply, they are able to advance and the more money the country earns, the more it can advance and achieve a “big push” towards greater economic development and other forms of output – industrialisation etc.

The problem is that many poorer countries have climatic, geographical or political problems which prevent them from being productive. On top of that they may face a lack of technology which hinders them from producing higher yields. So they are stuck in poverty, resigned to subsistence farming in many cases. Their children remain uneducated or sick. They may have bigger families to combat higher infant mortality rates which puts pressure on already scarce resources.

**The Bottom Billion and the 4 traps**

Paul Collier wrote a book in 2007 called the Bottom Billion. In this book he recognised that the traditional terms of Global inequality had changed and the debate was not so much about the West .v. the rest but rather the bottom billion people in the world and how they were stuck in stagnant economies that were not moving due to four reasons:

1. Conflict Trap (stuck in civil war loop which leads to uncertainty and lack of investment as well as a shrinkage of the population
2. Natural resource trap (Countries rich in natural resources can be paradoxically worse off due to ‘dutch disease’, vulnerability to external market price shocks in their commodity, ‘rent seeking’ and corruption in trying to secure these money making revenues.
3. Landlocked with bad neighbours trap (Countries are unable to trade effectively by sea and benefit from significant economies of scale. On top of this, perhaps they are next to an unstable nation?)
4. Bad governance (Terrible governance and policies can destroy an economy with alarming speed)

**ARTICLE 3: Globalisation Introduction**

**Globalisation: the rise and fall of an idea that swept the world**

By [Nikil Saval](https://www.theguardian.com/profile/nikil-saval) in the Guardian 14th July 2017

It’s not just a populist backlash led by Farage and Trump – many economists who once swore by free trade have changed their minds, too. How had they got it so wrong? Globalisation is often described as the removal of barriers to trade, labour and capital movements around the globe. It is the ability for anyone to trade with anyone and the promise of higher living standards as a result has for a long time been the standard flag bearing economic theory of ‘comparative advantage’; you specialise in what you are good at and we will specialise in what we are good at….and then do some swapping!

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| The annual January gathering of the World Economic Forum in Davos is usually a placid affair: a place for well-heeled participants to exchange notes on global business opportunities, or powder conditions on the local ski slopes, while cradling champagne and canapes. This January, the ultra-rich and the sparkling wine returned, but by all reports the mood was one of anxiety, defensiveness and self-reproach.  The future of economic globalisation, for which the Davos men and women see themselves as caretakers, had been shaken by a series of political earthquakes. “Globalisation” can mean many things, but what lay in particular doubt was the long-advanced project of increasing free trade in goods across borders. The previous summer, Britain had voted to leave the largest trading bloc in the world - BREXIT. In November, the unexpected victory of Donald Trump, who vowed to withdraw from major trade deals, appeared to jeopardise the trading relationships of the world’s richest country. Forthcoming elections in France and Germany suddenly seemed to bear the possibility of anti-globalisation parties garnering better results than ever before. The barbarians weren’t at the gates to the ski-lifts yet – but they weren’t very far. |  |

In a panel titled Governing Globalisation, the economist Dambisa Moyo, otherwise a well-known supporter of free trade, forthrightly asked the audience to accept that “there have been significant losses” from globalisation. “It is not clear to me that we are going to be able to remedy them under the current infrastructure,” she added. Christine Lagarde, the head of the International Monetary Fund, called for an idea, normally foreign to the World Economic Forum: “more redistribution”. After years of discounting the bad effects of free trade, it was time to face facts: globalisation caused job losses and depressed wages, and the usual Davos proposals – such as instructing affected populations to accept the new reality – weren’t going to work. Unless something changed, the political consequences were likely to get worse.

The backlash to globalisation has helped fuel the extraordinary political shifts of the past 18 months. During the close race to become the Democratic party candidate, senator Bernie Sanders relentlessly attacked Hillary Clinton on her support for free trade. On the campaign trail, Donald Trump openly proposed tilting the terms of trade in favour of American industry. “Americanism, not globalism, shall be our creed,” he bellowed at the Republican national convention last July. The vote for Brexit was strongest in the regions of the UK devastated by the loss of manufacturing due to it being shifted to cheaper Asian countries. At Davos in January, British prime minister Theresa May, the leader of the party of capital and inherited wealth, improbably picked up the theme, warning that, for many, “talk of greater globalisation … means their jobs being outsourced and wages undercut.” Meanwhile, the European far right has been warning against free movement of people as well as goods. Following her qualifying victory in the first round of France’s presidential election, Marine Le Pen warned darkly that “the main thing at stake in this election is the rampant globalisation that is endangering our civilisation.”

It was only a few decades ago that globalisation was held by many, even by some critics, to be an inevitable, unstoppable force. “Rejecting globalisation,” the American journalist George Packer has written, “was like rejecting the sunrise.” Globalisation could take place in services, capital and ideas, making it a notoriously imprecise term; but what it meant most often was making it cheaper to trade across borders – something that seemed to many at the time to be an unquestionable good. In practice, this often meant that industry would move from rich countries, where labour was expensive, to poor countries, where labour was cheaper. People in the rich countries would either have to accept lower wages to compete, or lose their jobs. But no matter what, the goods they formerly produced would now be imported, and be even cheaper. And the unemployed could get new, higher-skilled jobs (if they got the requisite training). Mainstream economists and politicians upheld the consensus about the merits of globalisation, with little concern that there might be political consequences.

Back then, economists could calmly chalk up anti-globalisation sentiment to a marginal group of delusional protesters, or disgruntled stragglers still toiling uselessly in “sunset industries”. These days, with political change, the old self-assurance is gone.

**Was the economic consensus that Globalisation was always ‘good’?**

In the heyday of the globalisation consensus, few economists questioned its merits in public. But in 1997, the Harvard economist Dani Rodrik published a slim book that created a stir. Appearing just as the US was about to enter a historic economic boom, Rodrik’s book, Has Globalization Gone Too Far?, sounded an unusual note of alarm.

Rodrik pointed to a series of dramatic recent events that challenged the idea that growing free trade would be peacefully accepted. In 1995, France had adopted a programme of fiscal austerity in order to prepare for entry into the eurozone; trade unions responded with the largest wave of strikes since 1968. In 1996, only five years after the end of the Soviet Union – with Russia’s once-protected markets having been forcibly opened, leading to a sudden decline in living standards – a communist won 40% of the vote in Russia’s presidential elections. That same year, two years after the passing of the North American Free Trade Agreement (Nafta), one of the most ambitious multinational deals ever accomplished, a white nationalist running on an “America first” programme of economic protectionism did surprisingly well in the presidential primaries of the Republican party.

What was the pathology of which all of these disturbing events were symptoms? For Rodrik, it was “the process that has come to be called ‘globalisation’”. Since the 1980s, and especially following the collapse of the Soviet Union, lowering barriers to international trade had become the axiom of countries everywhere. Tariffs had to be slashed and regulations spiked. Trade unions, which kept wages high and made it harder to fire people, had to be crushed. Governments vied with each other to make their country more hospitable – more “competitive” – for businesses. That meant making labour cheaper and regulations looser, often in countries that had once tried their hand at socialism, or had spent years protecting “homegrown” industries with tariffs. Foreign business is more likely to invest in the country if there are low wages and a lack of regulation and domestic producers have lower costs with which to compete with exports and boost trade.

These moves were generally applauded by economists. After all, their profession had long embraced the principle of comparative advantage – simply put, the idea countries will trade with each other in order to gain what each lacks, thereby benefiting both. In theory, then, the globalisation of trade in goods and services would benefit consumers in rich countries by giving them access to inexpensive goods produced by cheaper labour in poorer countries, and this demand, in turn, would help grow the economies of those poorer countries who were now industrialising and having a booming manufacturing sector for exports. A win win?

But the social cost, in Rodrik’s dissenting view, was high – and consistently underestimated by economists. He noted that since the 1970s, lower-skilled European and American workers had endured a major fall in the real value of their wages, which dropped by more than 20%. Workers were suffering more spells of unemployment, more volatility in the hours they were expected to work.

While many economists attributed much of the insecurity to technological change – sophisticated new machines displacing low-skilled workers – Rodrik suggested that the process of globalisation should shoulder more of the blame. It was, in particular, the competition between workers in developing and developed countries that helped drive down wages and job security for workers in developed countries. Over and over, they would be held hostage to the possibility that their business would up and leave, in order to find cheap labour in other parts of the world; they had to accept restraints on their salaries – or else. Opinion polls registered their strong levels of anxiety and insecurity, and the political effects were becoming more visible. Rodrik foresaw that the cost of greater “economic integration” would be greater “social disintegration”. The inevitable result would be a huge political backlash.

As Rodrik would later recall, other economists tended to dismiss his arguments – or fear them. Paul Krugman, who would win the Nobel prize in 2008 for his earlier work in trade theory and economic geography, privately warned Rodrik that his work would give “ammunition to the barbarians”.

It was a tacit acknowledgment that pro-globalisation economists, journalists and politicians had come under growing pressure from a new movement on the left, who were raising concerns very similar to Rodrik’s. Over the course of the 1990s, an unwieldy international coalition had begun to contest the notion that globalisation was good. Called “anti-globalisation” by the media, and the “alter-globalisation” or “global justice” movement by its participants, it tried to draw attention to the devastating effect that free trade policies were having, especially in the developing world, where globalisation was supposed to be having its most beneficial effect. Activists were intent on showing a much darker picture, revealing how the record of globalisation consisted mostly of farmers pushed off their land and the rampant proliferation of sweatshops. They also implicated the highest world bodies in their critique: the G7, World Bank and IMF. In 1999, the movement reached a high point when a unique coalition of trade unions and environmentalists managed to shut down the meeting of the World Trade Organization in Seattle.

In a state of panic, economists responded with a flood of columns and books that defended the necessity of a more open global market economy, in tones ranging from grandiose to sarcastic. For example, the rhetoric of figures such as Friedman, who in his book The World is Flat mocked the “pampered American college kids” who, “wearing their branded clothing, began to get interested in sweatshops as a way of expiating their guilt”.

**The Financial Crisis of 2007 a catalyst for a change in consensus?**

A few months before the financial crisis hit, some economists were already confessing to a “guilty conscience”. In the 1990s, they had been very influential in arguing that global trade with poor countries had only a small effect on workers’ wages in rich countries. By 2008, they were having doubts: the data seemed to suggest that the effect was much larger than they had suspected.

In the years that followed, the crash, the crisis of the eurozone and the worldwide drop in the price of oil and other commodities combined to put a huge dent in global trade. Since 2012, the IMF reported in its World Economic Outlook for October 2016, trade was growing at 3% a year – less than half the average of the previous three decades. That month, Martin Wolf argued in a column that globalisation had “lost dynamism”, due to a slackening of the world economy, the “exhaustion” of new markets to exploit and a rise in protectionist policies around the world. In an interview earlier this year, Wolf suggested to me that, though he remained convinced globalisation had not been the decisive factor in rising inequality, he had nonetheless not fully foreseen when he was writing Why Globalization Works how “radical the implications” of worsening inequality “might be for the US, and therefore the world”. Among these implications appears to be a rising distrust of the establishment that is blamed for the inequality. “We have a very big political problem in many of our countries,” he said. “The elites – the policymaking business and financial elites – are increasingly disliked. You need to make policy which brings people to think again that their societies are run in a decent and civilised way.”

That distrust of the establishment has had highly visible political consequences: Farage, Trump, and Le Pen on the right; but also in new parties on the left, such as Spain’s Podemos, and curious populist hybrids, such as Italy’s Five Star Movement. As in 1997, but to an even greater degree, the volatile political scene reflects public anxiety over “the process that has come to be called ‘globalisation’”. If the critics of globalisation could be dismissed before because of their lack of economics training, or ignored because they were in distant countries, or kept out of sight by a wall of police, their sudden political ascendancy in the rich countries of the west cannot be so easily discounted today.