Introduction

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Globalisation is perhaps the topic of the age. Globalisation means different things to different people, but a key economic dimension of it is undoubtedly the opening up of economies to international competition, allowing goods, ideas, capital and some people to move more freely between countries. Many countries around the world have embraced these aspects of globalisation, because governments have become convinced that a more dynamic economic performance awaits countries that more closely integrate with the global economy. And yet, because it brings with it more rapid domestic economic change, globalisation can be disruptive and can generate losers as well as winners. If for no other reasons than these, globalisation remains an issue about which there is much debate.

Australia's experience with globalisation has fitted this general pattern, with closer international integration being associated with an improved economic performance over the past decade or so, but also with more rapid domestic economic change. The Reserve Bank's and Treasury's interest in globalisation was stimulated both by this Australian experience, and by Australia's involvement in the G-20 group of countries.[1] The inaugural Chairman of the G-20, Canada's then Finance Minister Paul Martin, proposed in 2000 that the G-20 study the policy challenges posed by globalisation, and the Australian Treasurer, Peter Costello, suggested case studies of member countries as one aspect of that work.

The idea of a conference on the topic of globalisation, living standards and inequality grew out of this enhanced interest in globalisation on the part of the G-20. The aim of the conference, jointly hosted by the Reserve Bank and Treasury, was to bring together leading researchers in the field, along with statisticians and policy advisors from the G-20 countries, to seek answers to a range of important questions. What have been the broad trends in the global distribution of income over the past few decades? What role has globalisation played in generating these trends? Are the implications of globalisation for income inequality and poverty different for developed countries than they are for developing countries? What policy implications flow from these broad trends? What progress is being made in the international statistical architecture to improve the quality and international comparability of statistics on poverty and inequality? What more needs to be done? The papers in this volume, and the discussions which accompany them, attempt to shed light on these questions.

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1. The G-20 is comprised of Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, Korea, Turkey, the United Kingdom and the United States (19 countries in all). The finance minister of the country holding the (rotating) Presidency of the European Union, the President of the European Central Bank, the Managing Director of the IMF, the President of the World Bank, and the chairpersons of the International Monetary and Financial Committee of the IMF and the Development Committee of the IMF and World Bank also participate in G-20 discussions.

Global Inequality and Extreme Poverty: The Broad Trends

There appears to be widespread agreement that global inequality widened for much of the past two to three centuries, and the absolute number of people living in extreme poverty rose (even though the proportion in extreme poverty fell over this time). From around 1980, however, there is some evidence that these trends have not continued, and may in fact have reversed.

There have been two important trends since about 1980. The first of these has been an acceleration in economic growth in many of the world's most populous countries – particularly the Asian countries of China, India, Bangladesh and Vietnam. These countries, which were among the world's poorest as recently as 1980, have all grown faster than the rich countries, in per capita terms, in the period since then. Largely as a consequence of this improved economic performance in these populous Asian countries, the poorest one-fifth of countries in 1980 had a *population-weighted* annual per capita growth rate of 4 per cent from 1980 to 1997, compared with 1.7 per cent for the richest fifth of countries over the same period, as David Dollar points out in his contribution to the volume. The experience of the fastest growth occurring in the poorest countries is a new one, at least in the modern era, with the growth rates for these same country groupings in the preceding two decades (1960–1980) being 1.8 per cent for the poor group and 3.3 per cent for the rich group.

The second, and much more problematic, trend has been the continued poor economic performance of most of the countries in Africa, with some countries experiencing declines in average living standards, not only relative to the rich countries, but even in absolute terms.[2]

These two opposing trends have had important implications for global poverty and inequality over the past two decades. On the basis of the admittedly imperfect available data, there appears to have been a huge fall in the number of people living in extreme poverty outside Africa, offset to some extent by a significant rise in extreme poverty within Africa. Dollar argues that 200 million is a conservative estimate of the net fall in the number of people in the world living in extreme poverty (subsisting on less than the purchasing power parity (PPP) equivalent of US$1 a day) since 1980 – and that this fall has occurred despite growth in the global population of about 1.6 billion people and a rise in extreme poverty in Africa of perhaps 170 million over this time.[3]

2. It should be noted, however, that while these trends have occurred for much of Africa, there have also been some African economic success stories, such as Uganda and Botswana.

3. In a recent paper, Angus Deaton (2002) comes to a similar conclusion: 'according to recent calculations by Shaohua Chen and Martin Ravallion (2000) of the World Bank using all of the household survey data since around 1980, and with due recognition of the data's many inadequacies, the best current estimate is that there are indeed around 200 million fewer people living in [extreme] poverty now than 20 years ago'. Robert Wade, in his contribution to the volume, argues that the data are not reliable enough to be confident that the absolute number of people living in extreme poverty has fallen, although he thinks it 'quite plausible that the proportion of the world's population living in extreme poverty…has indeed fallen over the past 20 years or so' (p 42).

The divergent economic fortunes of the populous Asian countries on the one hand and much of Africa on the other, has therefore led to the 'Africanisation' of extreme poverty. The contrast is particularly stark when one compares 1960, when Africa accounted for only about one-tenth of the world's extremely poor, with 1998, when this proportion had risen to about two-thirds, as Ken Henry points out in his comments in the volume.

Turning from extreme poverty to inequality, there is a broad consensus that global inequality was on the rise throughout most of modern economic history. Indeed, one might define 'modern economic history' as that period since living standards in the leading countries of the first industrial revolution accelerated away from those in the rest of the world. The rapid economic growth experienced over the past couple of decades in the populous countries of Asia has, however, been a force acting to reduce global inequality. As with global poverty, the narrowing effect of robust Asian growth on the global distribution of income has been offset, at least to some extent, by developments in Africa.

To come to an informed view about the recent trends in global inequality, it is necessary to first decide on the appropriate way to compare income (or consumption) across countries. As explained by Peter Harper and Steve Dowrick in their contributions to the volume, the conceptually appropriate approach is to use PPP estimates to convert domestic-currency values in each country into a common currency, rather than using market exchange rates.

Ideally, a measure of global inequality should take into account both within and between-country distributions of income (or consumption). It also seems sensible to conduct the analysis in population-weighted terms (rather than giving each country an equal weight), so that each individual's experience of rising or falling income has the same weight in global inequality, regardless of where they live. Finally, inequality can be summarised using a range of different measures (such as the global Gini coefficient) that, in one way or another, collapse the whole distribution of income into a single number to allow comparisons to be made between different distributions.

Even when these conceptual choices have been made, and agreement reached about which summary inequality measure to use, some doubts remain about recent trends in global inequality. Dollar argues that, following a long period during which the global-income Gini coefficient had been rising, there has been a modest fall in this measure of global inequality over the period from 1980 to 1998. Dowrick and Akmal (2002) reach a somewhat different conclusion, finding that the global-income Gini has been essentially flat over the somewhat shorter time period, 1980 to 1993, when allowance is made for a technical shortcoming in the way PPPs have been aggregated for much of the world. It is worth noting, however, that whether global inequality (as summarised by a global-income Gini coefficient) has fallen modestly in the last couple of decades, or remained essentially flat, this development would still represent an encouraging and little-recognised change from the long-established historical trend of rising global inequality.[4]

The Impact of Globalisation

The populous Asian countries that have grown more rapidly than the rich countries in per capita terms since about 1980 have at the same time become much more integrated into the international economy. In the important case of China, for example, in the two decades since the Deng Xiaoping-led government instituted the new national policy of 'opening-to-the-outside-world', trade has quadrupled as a proportion of GDP from 8.5 per cent in 1978 to 36.5 per cent in 1999, and China has moved from being almost closed to foreign direct investment (FDI) to being the largest destination for FDI in the developing world.

In his contribution to the volume, Dollar marshals the evidence in favour of the proposition that the move to more outward-oriented policies has been one of the crucial reasons for stronger economic growth in these countries. This evidence takes three forms: cross-country studies that suggest a causal link from more openness to faster growth; case studies of individual countries (which have now been supplemented by research within China described by Shang-Jin Wei in the volume); and firm-level studies. Dollar (this volume, pp 17–18) summarises the general tenor of this evidence with a quote from Peter Lindert and Jeffrey Williamson (2001):

> The doubts that one can retain about each individual study threaten to block our view of the overall forest of evidence. Even though no one study can establish that openness to trade has unambiguously helped the representative Third World economy, the preponderance of evidence supports this conclusion…As far as we can tell, there are no anti-global victories to report for the postwar Third World. We infer that this is because freer trade stimulates growth in Third World economies today...

What is true on average need not be true in all cases, however, and Nancy Birdsall, in her contribution to the volume, cautions that an open trading regime, or an open capital account, has not necessarily led to economic growth, particularly for developing countries with an undiversified, heavily commodity-dependent export base. She argues that these countries, as a group, have not eschewed integration with the global economy – before suffering severe adverse terms-of-trade shocks, they traded as much as less-commodity dependent countries, and they have significantly

4. The different conclusions about the recent trend in global inequality also arise as a consequence of different estimates of recent output growth in China. Both Dollar and Dowrick and Akmal are careful to point out the significant degree of statistical uncertainty surrounding their estimates of the recent trend in global inequality. The technical shortcoming in the calculation of PPPs, which is described in more detail by both Dowrick and Harper in the volume, involves the use of the Geary-Khamis method to aggregate PPPs for much of the world (although the OECD and Eurostat now use the conceptually preferable Elteto-Köves-Szulc method for comparing living standards within the OECD). It is also clear that, whether or not global inequality has been declining over the most recent couple of decades, the poor economic performance of much of Africa, were it to continue into the future, would eventually dominate the effect of robust Asian growth, with the result that the global Gini coefficient would again begin to rise some time in the next decade or so (Sala-i-Martin 2002).

reduced tariff barriers to trade – but despite that, their economic performance over the past couple of decades has been disappointing. In Birdsall's view, the international trading system has worked particularly to the benefit of countries with well-developed institutions and internal markets; for countries without these attributes, opening up to the global economy has not always been a recipe for economic success.

Robert Wade, in his contribution to the volume, makes a related point when he argues that many countries that experienced rapid economic growth, particularly those in east Asia, did not integrate with the global economy simply by eliminating barriers to international competition, but instead sought to expose domestic producers to a level of competition sufficient to make them more efficient, but not drive them out of business. In Wade's view, explicit policies for building competitive domestic industries, which might involve preferential treatment for some sectors over others, are an essential part of successful integration with the global economy.

Whether or not one agrees with these arguments, it is also of interest that integration with the global economy appears to have had little systematic effect on income inequality within developing countries, according to Dollar. He cites prominent examples where international integration has been accompanied by a widening of income inequality, such as China, and others where income inequality has narrowed, such as Vietnam.

Indeed, the links between globalisation and income inequality appear to be quite subtle ones. Returning to the example of China, the overall trends – with rapidly rising trade shares being accompanied by rising levels of national income inequality – might lead one to suspect that widening Chinese income inequality has been a consequence of international integration. But the results reported by Shang-Jin Wei in the volume suggest a more complex story.

Wei studies changes in urban/rural inequality in a large sample of Chinese 'cities' (which comprise both urban and rural counties under the jurisdiction of the city government) over the period from 1988 to 1993. He finds strong evidence that those cities that exhibited a larger increase in openness (as measured by the rise in their exports to local GDP) not only experienced faster economic growth but, more surprisingly, also a larger decline in urban/rural inequality.[5]

Integrating with the global economy has therefore had two offsetting effects on Chinese inequality. On the one hand, regions that traded more have grown more rapidly, which has tended to raise inter-regional income inequality in China (since these regions were on average richer to start with). On the other hand, however, inequality has tended to fall within regions that have become more open, with the faster average growth therefore being of disproportionate benefit to the poorer rural counties in these regions.[6] Since the slow-growing regions are often hindered by

5. Wei's statistical technique also enables him to establish the direction of causation of this relationship – with more openness causing the decline in inequality.
6. Wei's statistical estimates are too imprecise for him to determine which of these two effects dominates, and so the impact on aggregate Chinese income inequality of integrating with the global economy remains unclear.

geography and transport infrastructure from participation in trade, these regional growth differences imply domestic policy challenges to spread the benefits of growth to the poorer regions.

Adarsh Kishore, in his discussion of the Indian experience with globalisation, draws attention to a similar phenomenon. India began its economic liberalisation program in earnest in the aftermath of a balance of payments crisis in 1991, and annual economic growth in India has averaged an impressive 6 per cent since then. This improved economic performance appears to have contributed to a huge fall in the numbers of people in India living in extreme poverty. As is the case in China, however, stronger economic growth has not been spread evenly across the country, with richer states (which tend to be coastal, and more able to integrate with the global economy) tending to grow more rapidly than poorer states during the 1990s. So Kishore also argues that this uneven performance suggests a key role for national policy in broadening the regional distribution of the benefits from growth.

While globalisation appears to have had little systematic effect on income inequality within the developing countries according to Dollar, it is quite conceivable that its effects on income inequality within the developed countries might be different. Tim Smeeding, in his contribution to the volume, contrasts income-inequality trends within the OECD countries over the period from the early/mid 1970s to the mid/late 1980s, with those over the period from the mid/late 1980s to the mid/late 1990s. In the earlier period, income inequality rose in some countries and fell in others, with no clear overall pattern, while it rose across almost the whole of the OECD in the later period.

The phenomenon of rising income inequality in the developed countries in the 1990s, Smeeding argues, has been predominantly a consequence of incomes rising at the top of the distribution rather than falling at the bottom. In his view, globalisation has been one force among many accounting for this widening income inequality within the OECD, but domestic policies – labour market institutions, welfare policies, etc – remain a powerful countervailing force to market-driven inequality. As he puts it, 'globalisation does not force any single outcome on any country [because] [d]omestic policies and institutions still have large effects on…inequality within rich and middle-income nations, even in a globalising world economy.' (Smeeding (this volume), p 179)

The benefits of globalisation would undoubtedly be greater, especially for many developing countries, if markets in developed countries were more open to developing-country exports. Many of the poorest commodity-dependent developing countries would benefit greatly, in terms of overall economic growth and also poverty alleviation, if they were granted better access to developed-country markets. In his comments in the volume, Ken Henry dramatises this point with the case of Burkina Faso, a tropical land-locked African country that has been continuously among the poorest 20 countries on earth for the past quarter-century. Burkina Faso exports cotton, but world cotton prices are kept artificially low as a consequence of the recent US Farm Bill and similar policies. Were it not for these subsidies depressing world cotton prices, the numbers of Burkinabe in extreme poverty could be halved in six years, according to IMF and World Bank estimates reported by Henry.

Statistical Issues

Statements about global poverty, living standards, and inequality, rest on statistical evidence, most of which is collected and compiled by national statistical offices. The three main relevant types of statistical information are national household surveys of income or consumption; national accounts measurement of per capita GDP; and international comparisons of the purchasing power of currencies after allowance for national price differences, using purchasing power parities or PPPs.

As noted in Peter Harper's paper in the volume, countries' preparation of national accounts has been improved and largely standardised through national statisticians' co-operation in the United Nations' Statistical Commission, leading to agreement on successive versions of the United Nations *System of National Accounts*. But international efforts to improve the quality of household income or expenditure surveys and of PPPs are not nearly so advanced, notwithstanding the *System of National Accounts'* recommendation that PPPs should be used when the object is to compare the volumes of goods or services produced or consumed per head.

The World Bank's International Comparison Program (ICP) represents an important effort to improve the conceptual coherence, statistical quality, timeliness, distribution and maintenance of PPPs, as Peter Harper's paper explains. A plan to conduct an improved round of PPP comparisons for the benchmark year of 2003 is currently well advanced, with results becoming available around 2005. This process could be assisted by widespread participation in the ICP by members of the G-20, and where appropriate, by contributions of technical or financial assistance to this important part of the world's international statistical architecture. A healthy ICP would help to improve the international comparability of price and value data, and enable technical improvements in the PPP estimates to be incorporated over time.

As Peter Harper and Tim Smeeding note in their papers, an expert group on household income statistics comprising eminent national and international statisticians, the so-called 'Canberra Group', has recently completed a framework outlining the principles of good household survey principles and practice (Canberra Group 2001). This affords the possibility for national statisticians in G-20 countries to take the lead in applying these principles and practices, thereby improving the quality and international comparability of national household surveys of expenditure or consumption.

Finally, both Peter Harper and Tim Smeeding argue that the Luxembourg Income Study (LIS) provides a co-operative means of improving the quality and international comparability of income distribution data among participating countries (so far, mainly the richer countries of the OECD). Broadening the range of G-20 members participating in the LIS would thereby also improve the quality of our estimates of global inequality and poverty.

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