
The Global economy and the Poor

Pranab Bardhan
(For Dev Eco II - Hansraj
College)

Globalisation and Poor

- Assessment of claim of Opponents of globalisation: It harms poor population:
 1. Increasing globalisation affects jobs, wages and incomes of the poor by dislocations and competitions of intl trade and foreign investment
 2. Weakens the ability of the state to compensate for this damage as poverty alleviation programs become restricted by international constraints.

Globalisation and Poor

These two issues are examined for poor in two capacities -

(a) Poor as workers

- As Self employed workers
- As wage earners

(b) Poor as users of public services/common resources

Poor as self employed workers

- **Onslaught of competition** - To prepare them to withstand comp from large Agribusinesses , the State needs to relieve infrastructure + K constraints
- **Export prospects of developing countries severely affected by developed country policies -**
 - A. Protectionism and subsidisation of farm and farm products & simple mfg goods
 - B. Use of safety and sanitary regulations to restrict M from developing countries*

MN marketing chains with global brand names can be used to mediate between domestic SS and foreign buyers, provide technical assistance and quality certification -> Role of State

Poor as self employed workers

- **Liberalisation may increase Y but it also increases vulnerability - through increase in price or income source variability.**
- Poor are unable to cope with such shocks.

Poor as Wage Workers

- Globalisation worsens conditions of workers because:
 - A. Workers mobility + ability to retool for changing mkt conditions is ltd* -> workers stuck in declining sectors in an open economy are hurt**
 - B. Nature of technical change in developed countries biased against unskilled workers -> use of these techniques by MNCs -> wage decline and unemployment for unskilled**
 - C. Weakens collective bargaining power (labor Unions)***

What can be done?

1. **Strong credible political commitment** that Liberalisation must be accompanied by domestic policies to compensate losers*.
2. There can be **increased income support programs** and/or programs to train unemployed and to assist in securing jobs
3. Fiscally, **progressive taxation** can be used for redistributive policies but not heavy tax of K (possibility of K flight)
4. Pro-globalisation **Intl organisation should take responsibility for funding and facilitating** adjustment processes to workers
5. **Strengthen technical negotiation capacity of poor countries** in intl trade forums

Poor as users of Public services

1. **Globalisation accompanied by Macro-economic stabilisation prescriptions particularly reducing fiscal deficit**
2. Problematic in low-Y and large informal sector countries where social protection is low and basic services like health and education -> state provision
3. Political clout of rich -> govt may not want to reduce subsidies to rich etc.
4. Thus, Decrease in fiscal deficit comes in the form of reducing expenditure on basic services/social protection - adversely affects the poor. -> **Per se issue isn't external agencies**

Poor as users of Common resources

1. Poor countries often are exporters of primary goods -> trade liberalisation -> increasing overexploitation of environmental resources
2. Poor rely heavily on common resources for their livelihood -> trade liberalisation damages poor

What can be done? Is trade restriction a solution?

1. Environmental effects of trade liberalisation depends on the crop pattern and method of production.

eg - in Africa, X = capital-intensive tree crops like cocoa and import substitutes = land-intensive crop corn; Policy of M substitution may lead to greater degradation -> **Case-by-Case basis assessment.**

Poor as users of Common resources

2. But, Over-use of land may also be due to domestic factors - like unclearly defined property rights.

-> But, to correct domestic factors -time consuming -> **time-bound trade restriction** may be imp given irreversibility of environmental damage **while the State Overhauls domestic institutional framework**

3. Can a country adopt domestic environmental **Regulations?** - May be difficult if competitors do not adopt them => loss of competitiveness.

-> Need for coordinated environmental regulation across the board - role of intl organisation