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Effects of globalization: inequality and social dimension

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References for this lecture

- **BBGV**
 - Chapter 14
 - Paragraphs 14.5, 14.6

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The 'social' dimension of globalization

- In this lecture we **depart** from the **direct implications** of the **models** studied so far
- **Broader discussion** of the **impact** of globalization on **poor** and **emerging countries**

Definition of poverty: the poverty line

- The **poverty line** is the minimum amount of **income** (in 'per day' terms) that is needed to **satisfy basic needs**
 - Basic **nutrition**
 - **Cloth**
 - **Shelter**
- It is **not** expressed in **nominal** terms
 - **One dollar** in **Urbino** is **worth** much **more** (in terms of goods that can be purchased) than the same dollar in **Copenhagen**
 - Purchasing Power Parity (**PPP**) conversion
- If a person **earns less** (or cannot spend more) than what is needed to satisfy the basic needs, it is said to be absolutely **poor**

The poverty line

- The World Bank usually employs **two** different **definitions** of poverty line
 - **\$1.25 a day** (international 2005 PPP dollars)
 - **\$2 a day** (international 2005 PPP dollars)

Millennium Development Goals (set in 2000, to be reached by 2015)



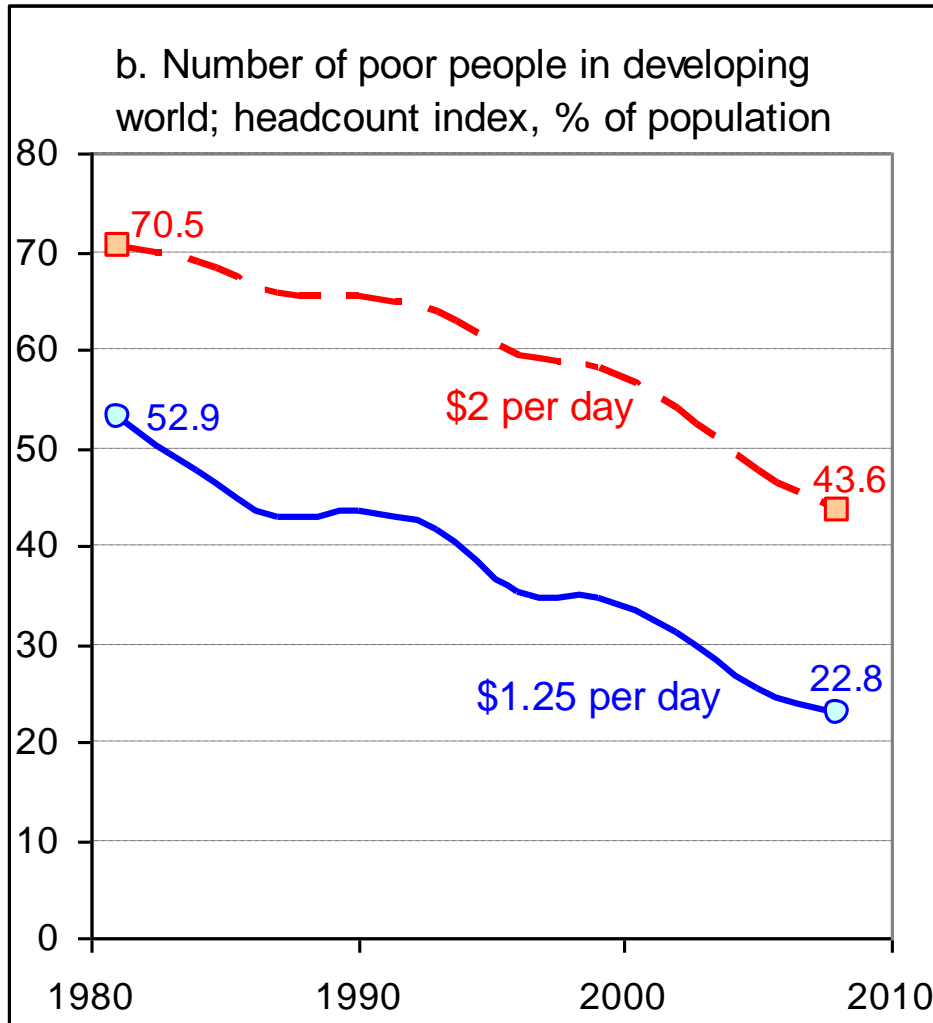
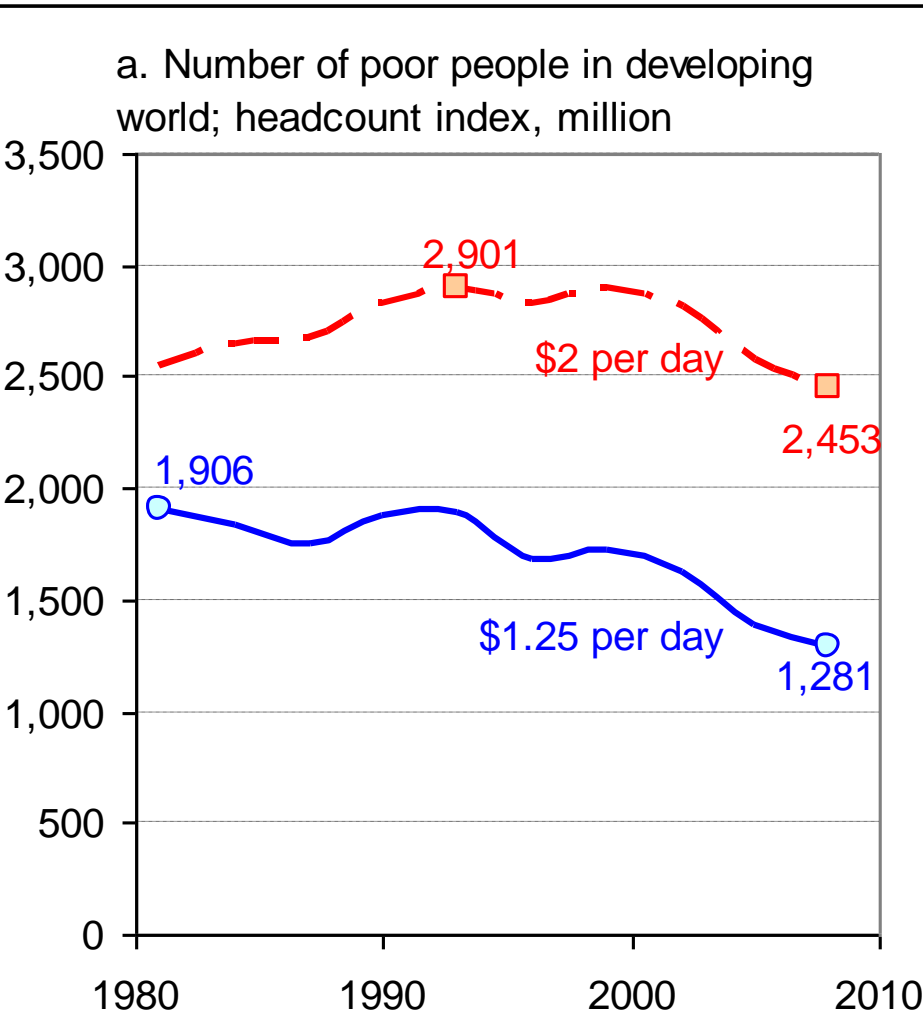
GOAL 1: ERADICATE EXTREME POVERTY & HUNGER

Target 1.A:

Halve, between 1990 and 2015, the proportion of people whose income is less than \$1.25 a day

- ∴ The target of reducing extreme poverty rates by half was met five years ahead of the 2015 deadline.
- ∴ More than 1 billion people have been lifted out of extreme poverty since 1990.
- ∴ In 1990, nearly half of the population in the developing regions lived on less than \$1.25 a day. This rate dropped to 14 per cent in 2015.
- ∴ At the global level more than 800 million people are still living in extreme poverty.

Figure 14.6 Number of poor people in the developing world, 1981-2008

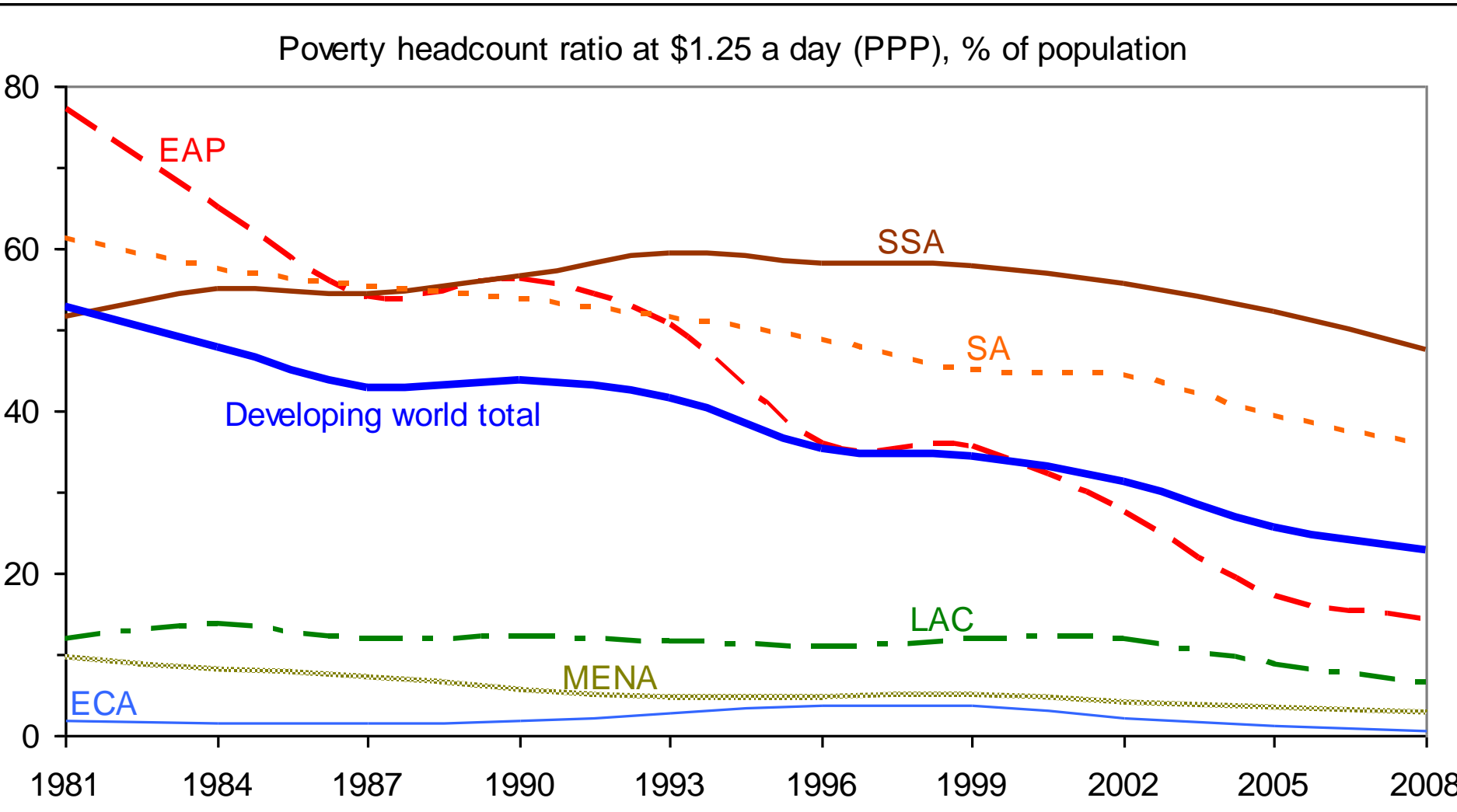


Source: author's calculations based on World Development Indicators online; the developing world consists of developing countries in EAP, ECA, LAC, MENA, SSA, and SA, see the main text.

Poverty eradication

- On **average**, the fight to poverty has been very **successful**
- Extremely successful in some areas, **poorly successful** in **some other areas**

Figure 14.7 Poverty headcount ratio at \$ 1.25 a day (PPP), % of population, 1981-2008

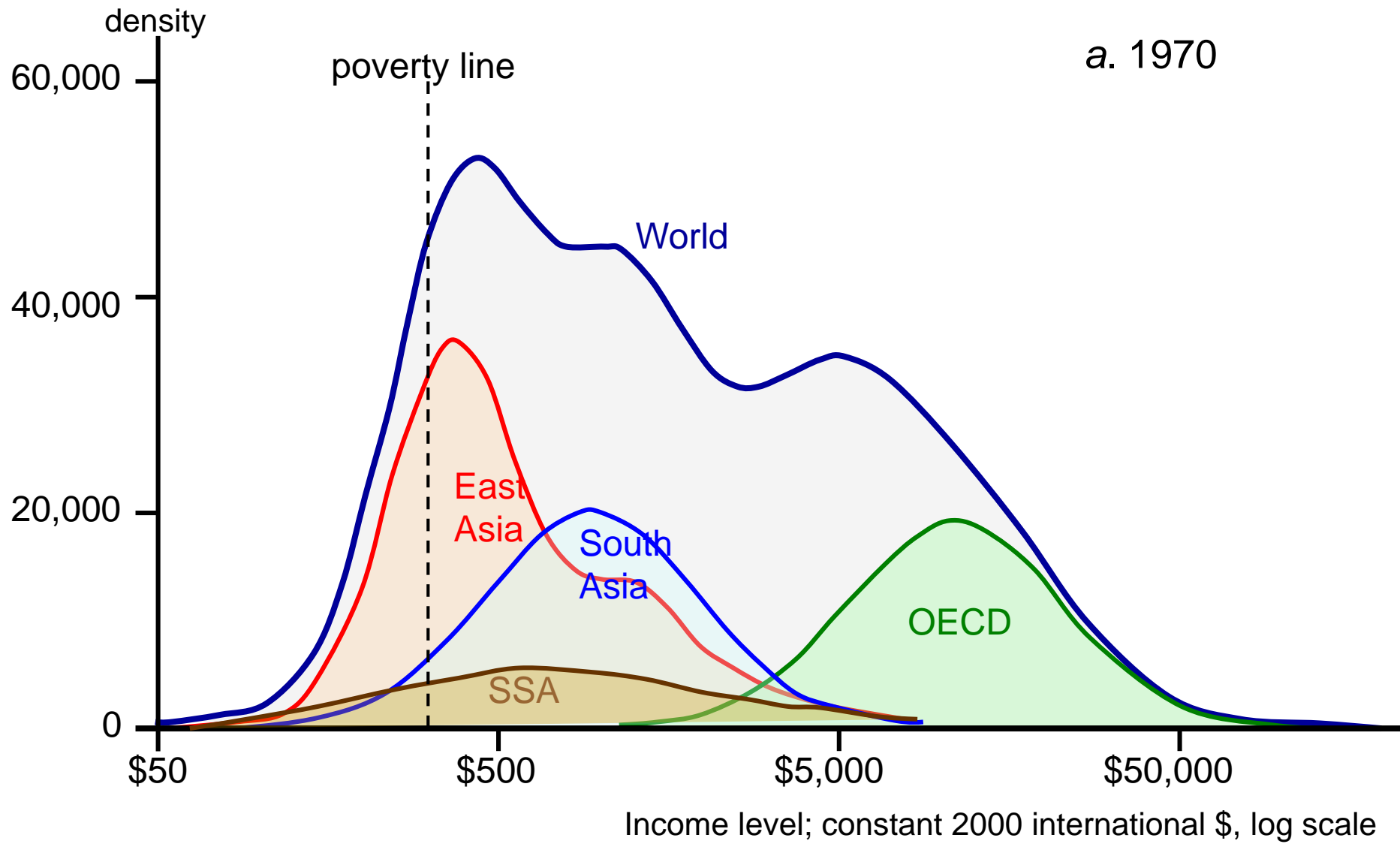


Source: author's calculations based on World Development Indicators online; see the main text for regional abbreviations EAP, ECA, LAC, MENA, SSA, and SA

Income distribution

- The **'poverty line'** approach to measure poverty and income distribution takes an **'individual' approach**
 - For **each individual**, no matter its country of residence, we need to **know about his income** and **compare** it with the **poverty line**
- Changes in the **global distribution of income** depend on the **combination** of
 - **Within-country** changes in income distribution (e.g. the one driven by HOS model)
 - **Between-country** changes in income distribution (e.g. due to convergence-divergence)

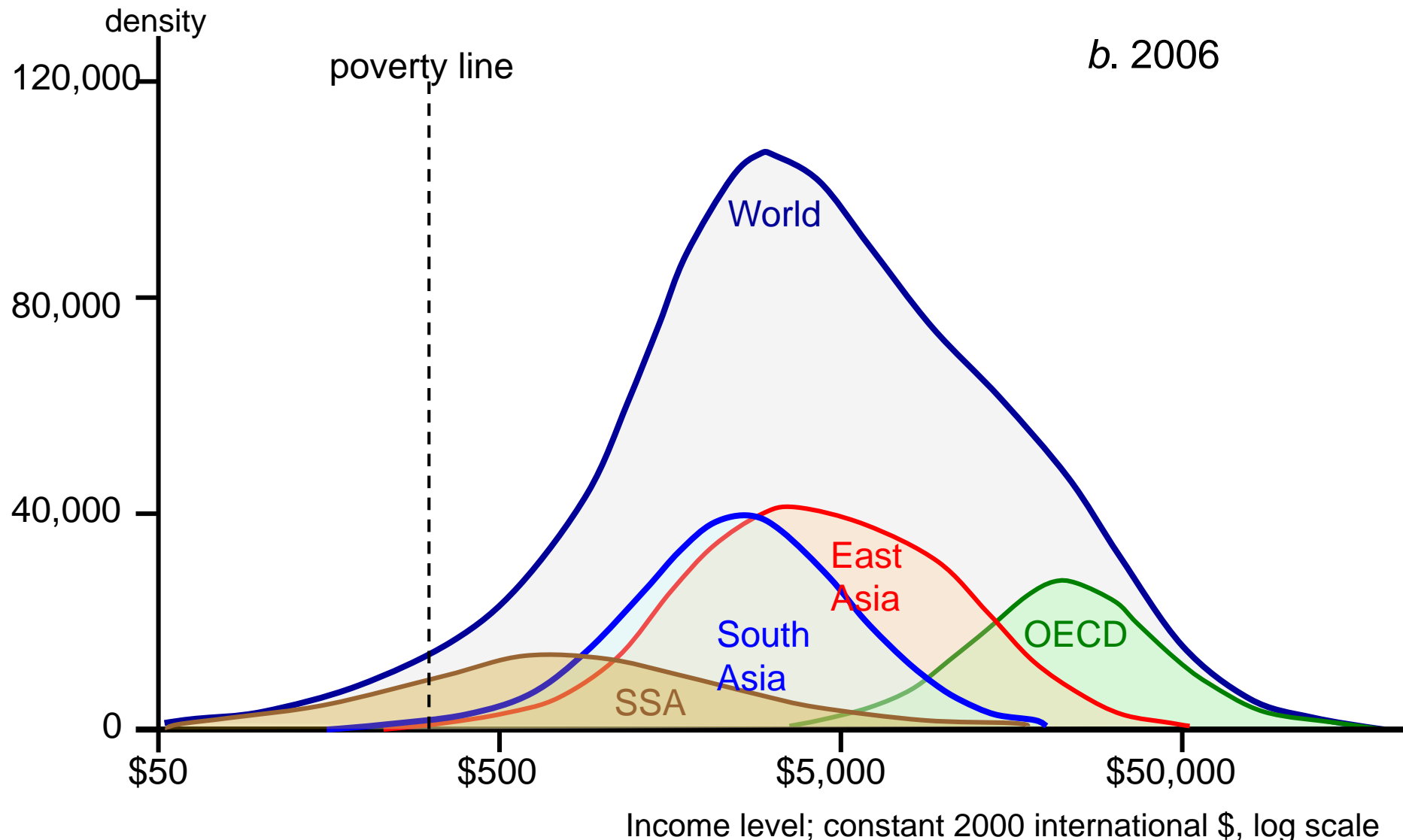
Figure 14.8 Global income distribution, 1970 and 2006



a. 1970

Source: based on Pinkovskiy and Sala-i-Martin (2009); the poverty line corresponds to \$312 a year, or \$1 a day in 2006 prices; see the main text for abbreviations; note: not all regions are identified in the figures

Figure 14.8 Global income distribution, 1970 and 2006



Source: based on Pinkovskiy and Sala-i-Martin (2009); the poverty line corresponds to \$312 a year, or \$1 a day in 2006 prices; see the main text for abbreviations; note: not all regions are identified in the figures

Figure 14.9 The Lorenz curve and the Gini coefficient

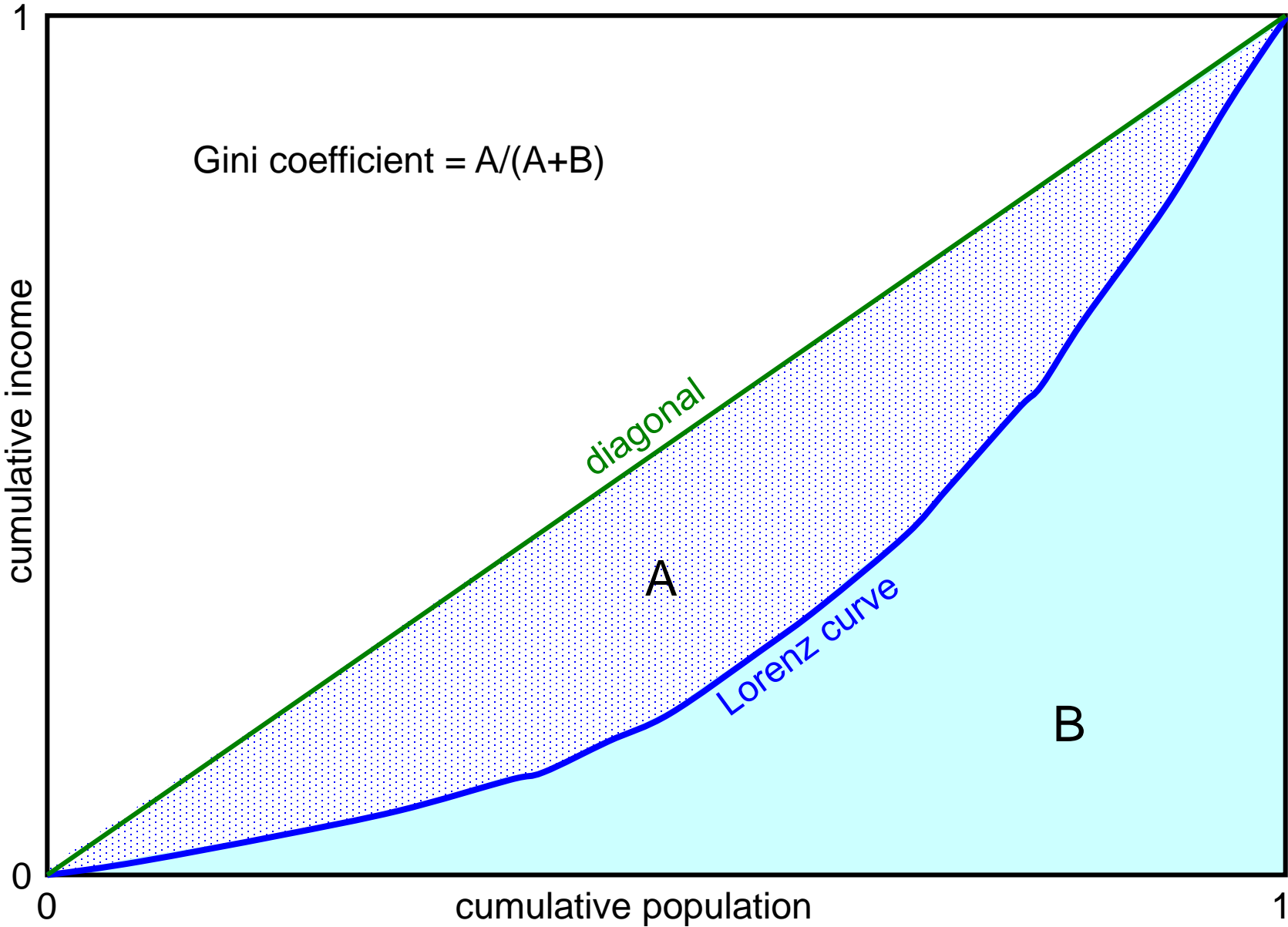
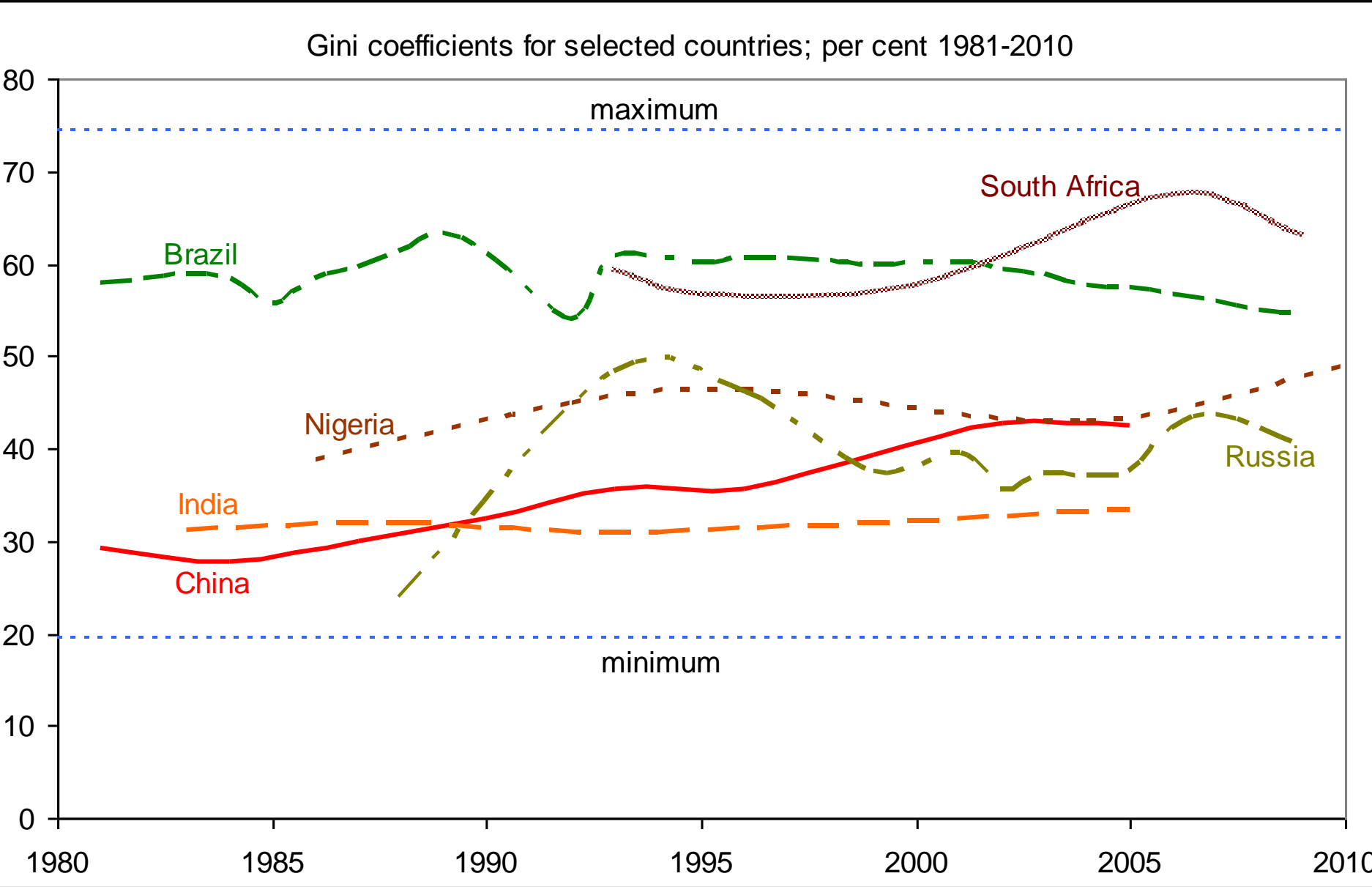


Figure 14.10 Income inequality; Gini coefficient, selected countries, 1981-2010



Source: author's calculations based on World Development Indicators online; minimum is 19.4 for Czech Republic in 1988; maximum is 74.3 for Namibia in 1993

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Figure 14.11 Global income inequality; Gini coefficient, 1970-2006



Source: based on data from Pinkovskiy and Sala-i-Martin (2009); note: scale does not start at zero

Capital mobility and inequality

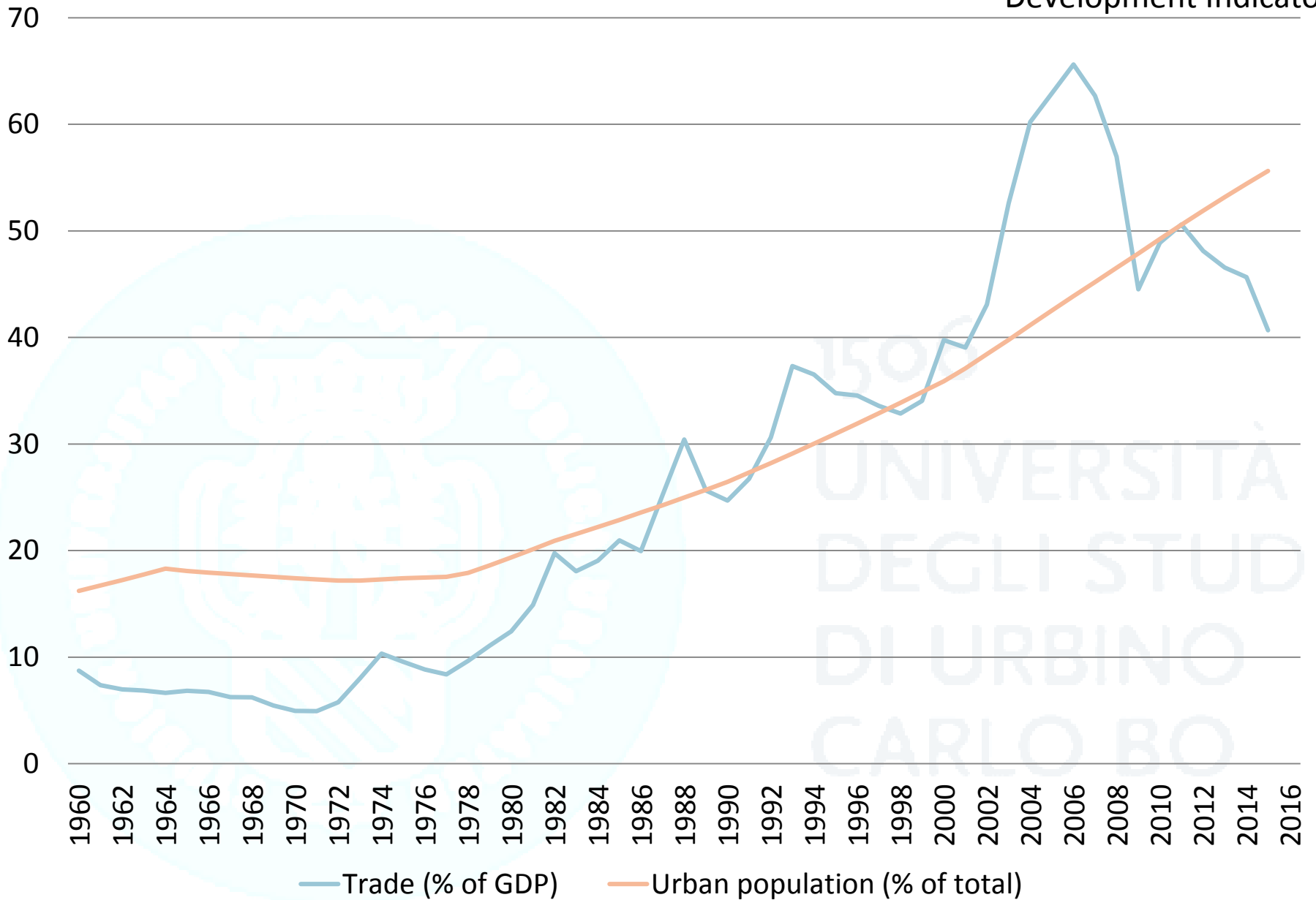
- **North-to-South** (vertical and horizontal) **multinational activity** contributes to economic **growth** (value added)
- **Value added** is **distributed** to production **factors**
 - **Wages** paid to local workers contribute to the wealth of the **host** country
 - **Compensation** to **capital** is sent back to the **home country** of the multinational
- This has relevant **implications** for the global **distribution** of wealth

Globalization and urbanization

- **Globalization** leads to the **specialization** in production
- Specialization occurs **both** in **developed** and in **developing** countries
- **Rapid specialization** has important **implications** for within-country **structural change**
 - Countries that **specialize** in **industrial production** will experience a **migration** from **rural areas** to **industrial (urban) areas**
 - Specialization in **agricultural production** (e.g. monoculture) requires dramatic **improvements** in **agricultural productivity** → **poor people migrate** to **urban** areas as **subsistence agriculture** is **not possible** any longer (e.g. land grabbing)

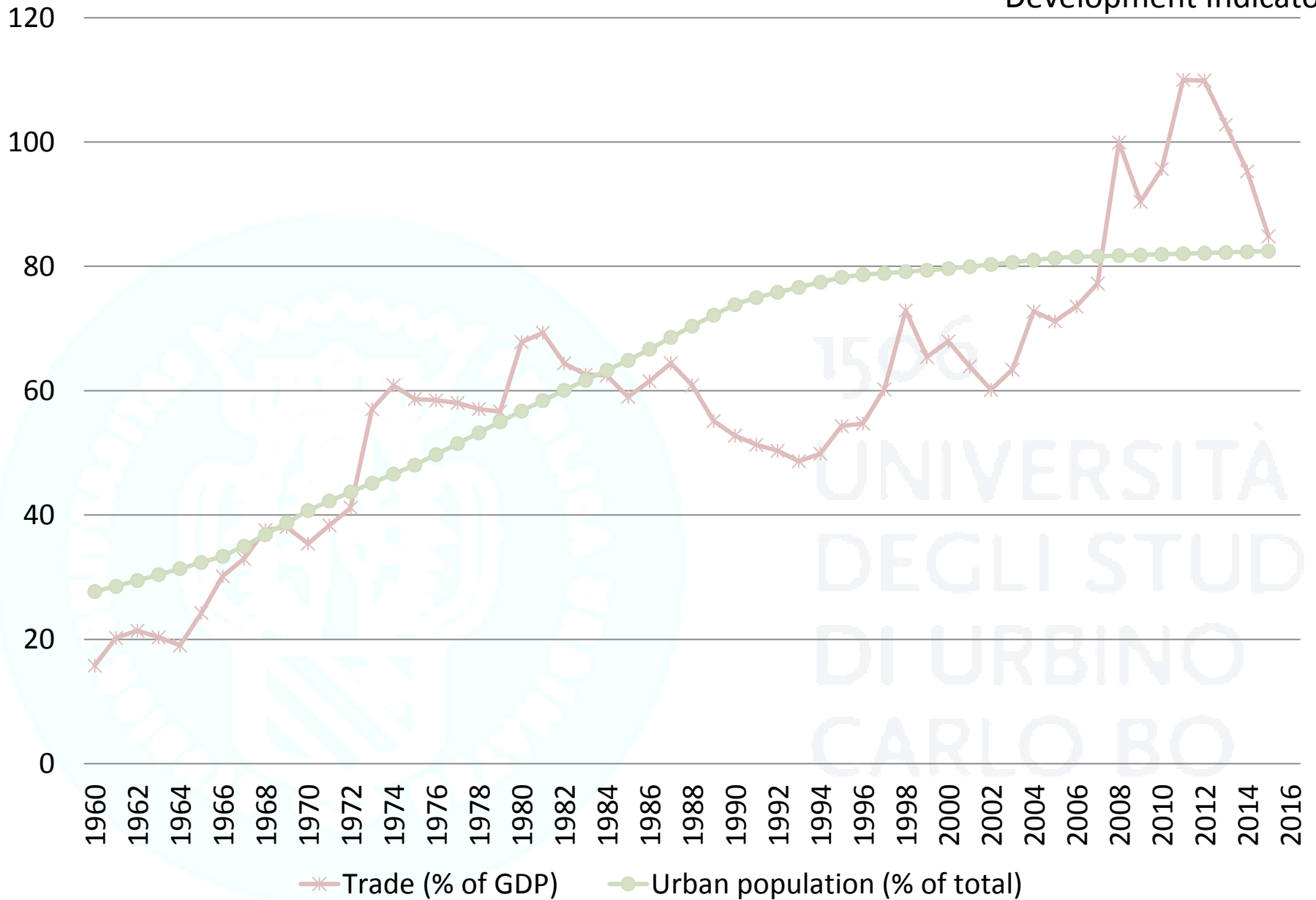
China

Source: World Bank
Development Indicators



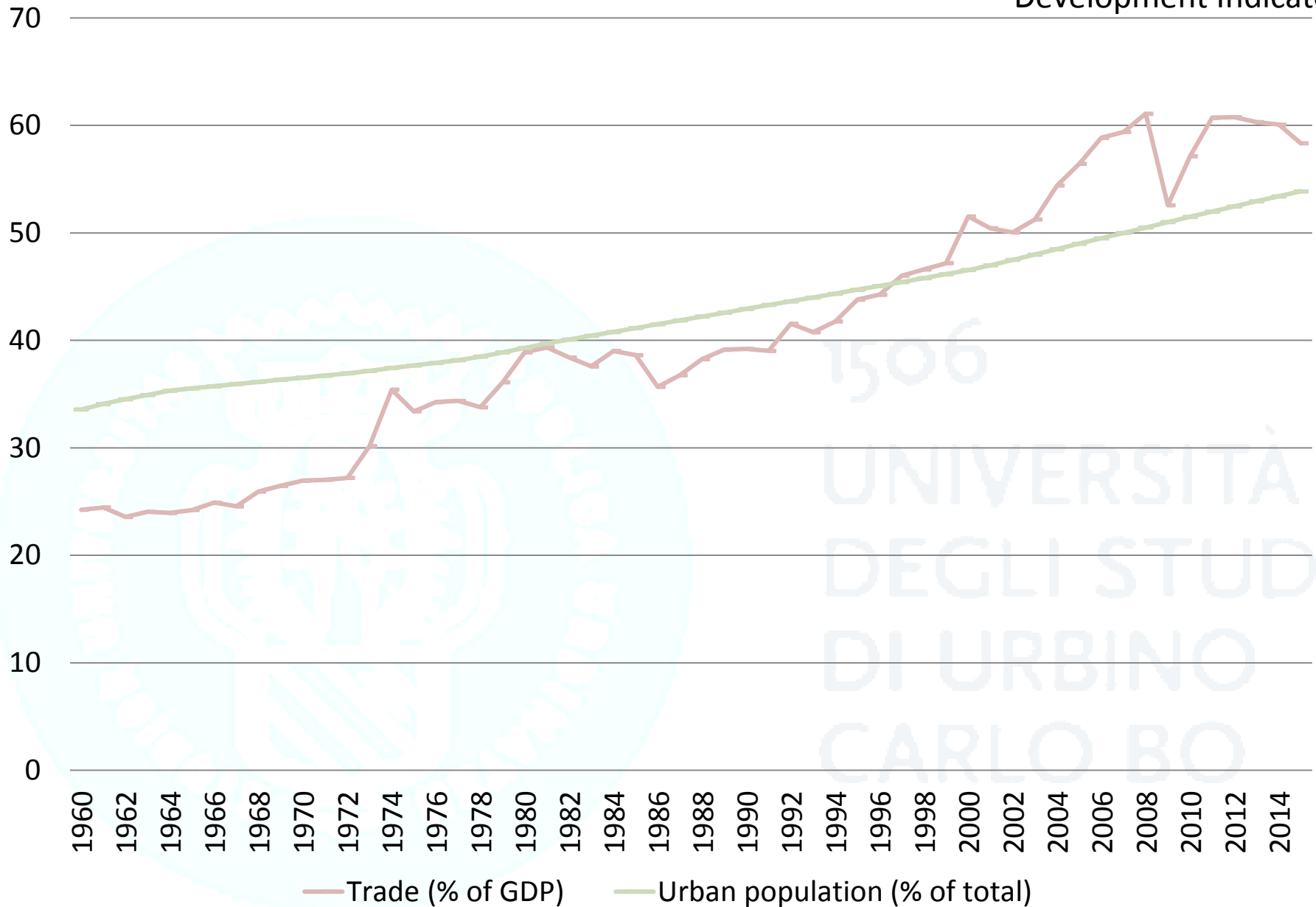
South Korea

Source: World Bank
Development Indicators

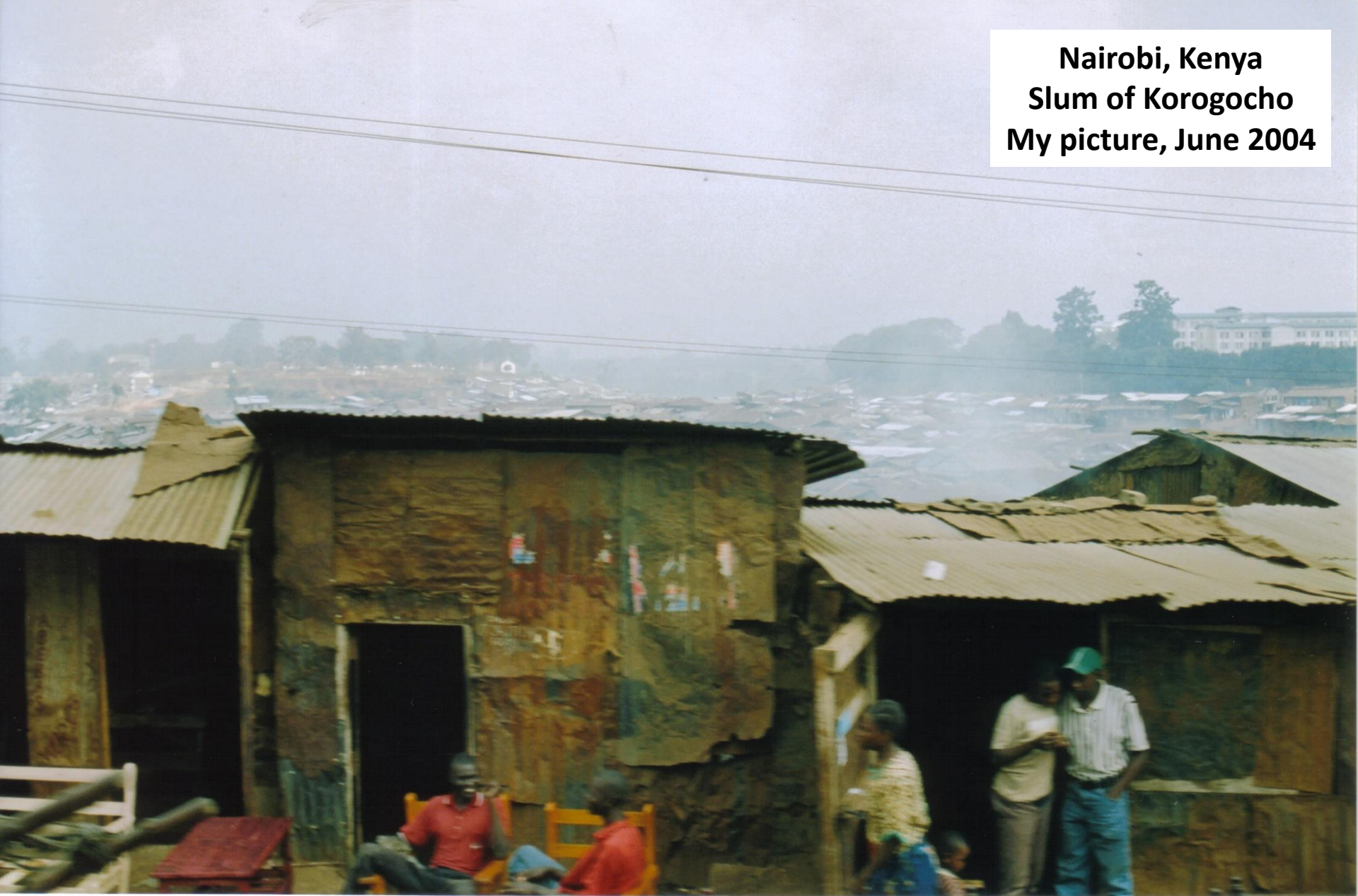


World

Source: World Bank
Development Indicators



**Nairobi, Kenya
Slum of Korogocho
My picture, June 2004**



Urbanization and social conditions

- Rapid **urbanization** is very **difficult** to be **governed** and **planned**
 - Housing
 - Transportation
 - Provision of public services
- **Poor institutional** quality makes **things worse**
- **People migrate** from rural to urban areas to **increase** their **monetary income** but
 - The **price** of goods and services that satisfy **basic needs** are **higher** in urban than in rural areas
 - **Less access** to **'informal economy'** in urban areas (e.g. it is impossible to cultivate your own vegetable garden)

Urbanization and social conditions

- Contribution of **urbanization** to **improve** social **conditions**
 - Access to **health** services
 - Access to **electricity** and **water**
 - More **opportunities** for **employment** in the **industrial** and **service** sectors
- Contribution of **urbanization** to **worsen** social **conditions**
 - **Vulnerability** to the **economic cycle**
 - Poor **air quality**
 - **Weaker ties** with **family** and **clan** that act, in rural context, as 'social security'