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THE TWO FACES OF GLOBALIZATION: AGAINST GLOBALIZATION AS WE KNOW IT

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The paper shows that the current view of globalization as an automatic and benign force is seriously flawed. It is mistaken because it focuses on only one, positive, face of globalization while entirely neglecting a malignant one. The two key historical episodes that are adduced by the supporters of the "globalization as it is" (the Halcyon days of the 1870-1913, and the record of the last two decades of development) are shown to be misinterpreted. The "Halcyon days" were never Halcyon for those who were "globalized" through colonization since colonial constraints prevented them from industrializing. And they were even less "Halcyon" for those who were taken into slavery. Even among the Western economies, the 19th century globalization, contrary to some views, failed to bring income convergence. The record of the last two decades (1978-1998) is shown to be uniformly worse than that of the previous two (1960-78). It is thus only by a serious misreading of the recent evidence that the partisans of globalization are able to argue for its unmitigated beneficence. Should globalization be abandoned and everyone retire behind protective national walls? Absolutely not. But globalization led by capitalist interests alone is likely, akin to what it accomplished a century ago, to produce a wild global capitalism with social exclusion, unbridled competition and exploitation. Global capitalism needs to be "civilized" in the same way that national capitalisms of the 19th century were "civilized" after World War II—a period which then witnessed the fastest growth in history. Yet the civilizing role cannot be done by individual states, but, because of the global nature of capitalism, by global institutions.

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1. The meanstream view

The mainstream view of globalization, at least among the people who matter in the countries that matter—the vast majority of economists, many political scientists, and political commentators—is that globalization is a benign force leading us ultimately to the era of converging world incomes (as poor countries like China open up to the world and see their incomes rise), converging institutions as democracy becomes a universal norm, and cultural richness as people of different background interact more frequently. The most famous, or notorious, reflection of that Pollyannaish view of the world was the early announcement by Francis Fukuyama (1989) of the "end of history." Although the ethnic warfare since then has not disproved Fukuyama's (or rather Hegel's) view, since none of the ethnic warriors had an alternative civilizational blueprint—a point which is implied in Hegel's hypothesis—the more recent debates about globalization as well as the role of Islam—a society *with* an alternative blueprint—do show that the end of history is not around the corner.

It is only a slight caricaturization of this naïve view as to state that its proponents regard globalization as a *deus ex machina* for many of the problems, like poverty, illiteracy or inequality that beset the developing world. The only thing that a country needs to do is simply to open up its borders, reduce tariff rates, attract foreign capital, and in a few generations if not less, the poor will become rich, the illiterate will learn how to read and write, and inequality will vanish as the poor countries catch up with the rich. This is the view conveyed implicitly and subliminally by many serious papers and publications, as for example in the Dollar and Kraay (2000) often-repeated statement that "the poor and the rich gain one-for-one from openness", [2] or in Sala-i-Martin's (2002) derisive statements about inequality and globalization. While, of course, the authors are careful enough not to explicitly make such statements (e.g. Dollar and Kraay do acknowledge that gains "one-for-one" are expressed in percentage terms, so that a poor person whose income is one-hundredth of that of a rich person will also gain one-

[2] In effect, the very first sentence of the abtract reads: "Income of the poor rises one-for-one with overall growth."

hundredth of the rich person's gain), they do like to leave their statement sufficiently ambiguous, thus allowing for much more explicit and wrong Pollyannaish views of globalization that find currency in the mainstream popular magazines and newspaoers. There the heavy guns of the globalization debate are not too embarrassed with finer points of relative vs. absolute gains, or with percentages or logarithms: they simply state that globalization is good for everyone. For example, *The Economist* (2000, p.82) in a review if the Dollar and Kraay article writes: "Growth really does help the poor: in fact, it raises their incomes by about as much as it raises incomes of everybody else." This is deemed not sufficient to carry the (misleading) message. In the next paragraph, they continue: "On average, incomes of the poor rise one-for-one with incomes overall." Case closed.

Moreover, the past too is harnessed to support this dominant view of globalization. The period 1870-1913, the heyday of imperialism and colonialism, is made to appear as the period of universal growth, and catch-up of poor countries, as, for example, in Williamson and Lindert (2001, p.1) who somewhat incredibly write: "globalization probably mitigated the steep rise in income gaps between nations. The nations that gained the most from globalization are those poor ones that changed their policies to exploit it…"

Thus, globalization is regarded as a benign and automatic force that, once certain preconditions are set in place ("sound" macro policies, protection of property rights etc.), will inexorably lead countries and individuals to a state of economic bliss. We shall show here that this view of globalization is based on one serious methodological error: a systematic ignorance of the double-sided nature of globalization, that is, systematic ignorance of its malignant side. We shall show, first, how this methodological error leads to the misreading of the 19th century economic history; second, we shall argue that the Pollyannaish view of globalization severely distorts the lessons of the most recent period, 1980-2000, and third, we shall show how a more accurate and realistic reading of globalization requires, in many respects, different policies from the ones suggested by the naïve (or self-interested?) globalization cheerleaders.

2. The two faces of globalization

As against the view of globalization as a purely benign force which we have briefly sketched above are set two other views. One, the Left view, regards globalization as a malignant force that leads to child labor in the South and takes away middle class jobs in the North. For the Left, to be anti-globalization is a very difficult task since the Left is, by definition, internationalist. But what the Left resents is that today's globalization is led by a triumphant, and often, unbridled capitalism. And unbridled capitalism does produce the effects of which the Left complains: destruction of environment, obliteration of indigenous cultures (e.g., how many Mayas still speak Mayan?), exploitation of the weak.

The conservative, and often xenophobic, Right also agrees that globalization is a malignant force. That view is more prevalent in Europe, with its history of xenophobia, than in the United States.[3] In Europe, globalization engenders not only fear of losing jobs to the poor masses in the South, but of losing cultural homogeneity that many European nations have acquired through a long process of obliteration of local cultures (where are the French Bretons today?) and three centuries of capitalist development. Their homogeneity is threatened, moreover, by the people of different color, culture, way of life. Silvio Berlusconi's recent quip about Islam, Oriana Fallaci's (2002) diatribes against Muslim immigrants, and Heider's, Le Pen's and Fonteyn's political support is all part and parcel of the fear engendered by a more globalized society.

Can these two views, the dominant one, and the critical too, be right? Yes, because globalization being such a huge and multifaceted process, presents different faces to different people. Depending on where we live, whether we are rich or poor, where we stand ideologically, we are bound to see the process differently. But this is

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[3] As Perry Anderson (2002) rightly points out, to the European antonym: internationalism vs. nationalism, the United States, somewhat uniquely, presented a different one: internationalism vs. isolationism. Hence specifically European xenophobia rooted in ethnicity and "blood and soil" was never much of an ideology in the US.

nothing new. Globalization as it played out from the mid-19th century to 1914 was also a contradictory force, with both its benign and malignant features. Thus, we believe, today too, as in the past, globalization has two faces: the benign one, based on voluntary exchanges and free circulation of people, capital, goods and ideas; and the other face, based on coercion and brute force.

3. By railroads and gunships

These two faces have been very clearly in evidence during the previous period of globalization a century ago. On the one hand, there was a manifold increase in output and trade between west European countries and their overseas offshoots (the United States, Canada, Australia, and New Zealand); there were millions of Italian, Polish, or Irish migrants who traversed the Atlantic in search of a better life (and found it), bringing moreover a wage and income convergence between Europe and the US by putting a downward pressure on wages in the United States, and allowing European wages to go up (O'Rourke and Williamson, 1999). Telegraph cables and railroads were built to bring the world closer and to accelerate the transfer of goods. In Cuba, the main producer of sugar, railroads were built before any existed in Italy or Holland (Bairoch, 1997, vol. 2, p. 574). Foreign capital flowed from the capital-rich England and France to the capital-poor lands, yet so rich in opportunities, like Argentina and Russia. In Keynes' (1988 [1918], pp. 11-12) famous phrase, wistfully regretting the passing away of a world that was destroyed by the Great War, a Londoner "could secure…cheap and comfortable means of transport to any country or climate without passport or other formality, could dispatch his servant (sic!) to the neighboring office of a bank for such supply of the precious metals as might seem convenient, and could then proceed abroad to foreign quarters, without knowledge of their religion, language, or customs…"

But while to the Keynes' Londoners, globalization indeed presented that clean, friendly face, was the same true for the others? Not really. Globalization was brought to the many at the "point of a gun", and many were "globalized" literally kicking and screaming, from Commodore's Perry ultimatum which opened Japan, to British and French gunboat diplomacy in Tunisia, Egypt and Zanzibar, to the Opium wars and gunboats that patrolled Chinese *internal* waterways. And, worst of all, for many millions who were sold in slavery, or who toiled sixteen hours a day on plantations from Malaya to Brazil that too was globalization. Globalization was not merely *accompanied* by the worst excesses of colonialism; colonialism was not an accident. On the contrary, globalization *was* colonialism because it is through being colonies that most of the non-European nations were brought to the global world. The Dutch East Indies company that, according to conservative estimates by Angus Maddison (2001, p. 87) pillaged during the period 1868-1930 between 7.4 and 10.3 percent of Indonesia's national income per year, [4] and the genocide in Congo that might have killed up to 10 million people, are only the worst excesses (see Hochschild, 1998).

Economists who deal in models of individual rational behavior are not well equipped to treat conquests and plunder. Thus, they prefer to stick to the "nice" face of globalization, to describe how the global working of the "invisible hand" brought late 19th century technological marvels. It is, for example, remarkable that in an influential article on the 19th century globalization by two distinguished economists, Jeffrey Williamson from Harvard and Peter Lindert from University of California (2001) never once were the words "colonialism", "colony", "slavery" or "colonization" uttered. This omission is all the more interesting because the period 1870-1913 (or 1820 which they also choose as the beginning year) was not only the epoch par excellence of colonialism, but of slavery too. Just *pro memoria,* in the British colonies, slavery was banned in 1833; in the French colonies, after the 1848 revolution; in the Dutch colonies, it continued until 1863; in the (South of the) United States, it was abolished in 1865, while in Brazil, it went on until 1878. It is thus, to say the least, very odd to ignore the existence of slavery when talking about globalization in the 19th century.

[4] Even in terms of the then Dutch income, the amounts were staggerinng: the transfers amounted to between 5.5 and 8.9 percent of Dutch GDP over the period of sixty years. This dwarfs the Marshall plan whose net transfers were about 4 percent of recipients' countries GDP over the period of about five years (Bairoch, 1997, vol. 3, p.120). And, of course, it makes puny today's official aid contributed by the rich countries which is about 0.3 percent of their GDPs.

From this "clean-shaven" world of voluntary exchanges, the unpleasant facts of slavery and conquest are simply banished. So, when we reflect on what globalization then brought to those who were enslaved, and to those who could "send their servant to the neighboring office of a bank" in London, are we surprised that people today might also have similarly divided views about globalization?

4. Income divergence during the 19th century

The dominant, the economists' view, of the 19th century globalization is indeed based on what Williamson calls "the Atlantic economy", that is, the exchange of goods, migration, and capital flows between Western Europe, and Northern America (where Argentina and Uruguay too make a few cameo appearances). As already said, economists are well-placed to deal with this benign face of globalization because their key methodological construct is a self-interested individual, and when there is no external coercion (slavery or gunboats), economists can best study how individuals, following their own interests, bring out economic changes that our textbooks tell us should happen.

The problem with this approach is twofold. First, it applies only to a limited part of the world. Colonialism, pillage, and slavery were no less part of globalization than the voluntary movement of Irish peasants to the United States, or the voluntary transfer of British funds to Argentina. So, if we want to discuss the North Atlantic economy alone, the Williamson-Lindert approach is fine: they can afford to ignore the rest of the world. But, if we want to use the parable of the North Atlantic economy to argue that this is what globalization *is*, then it is wrong because it is only one, and possibly a less important, facet of globalization.

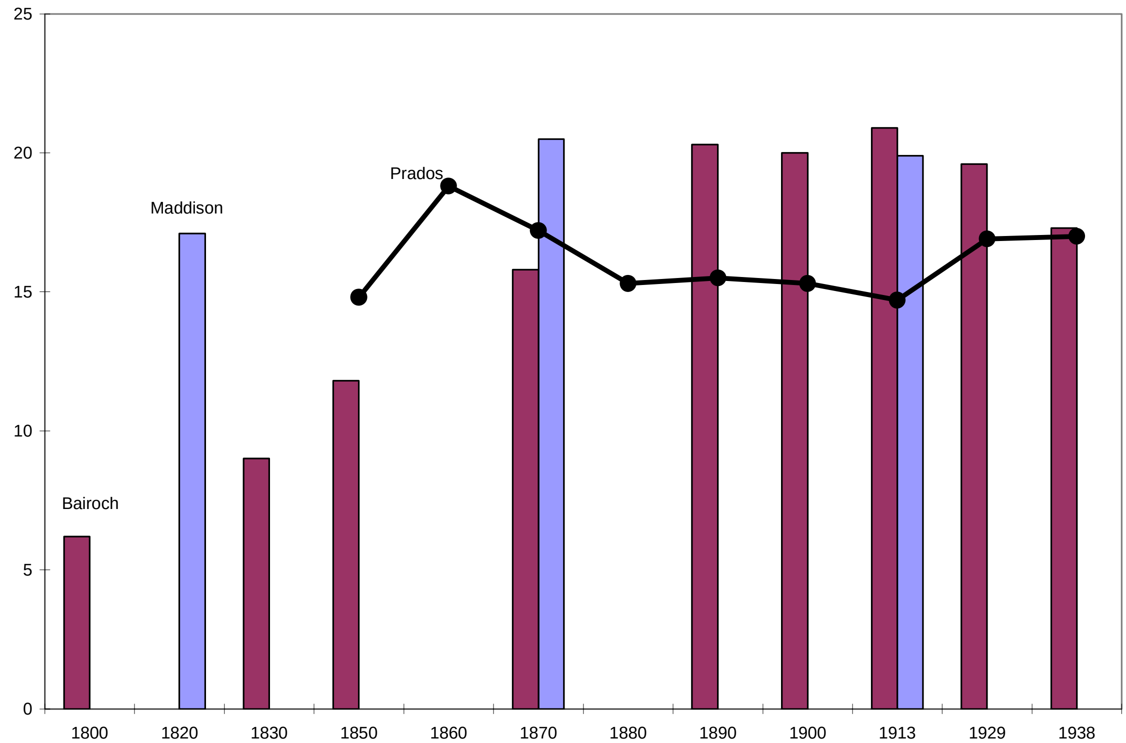
Secondly, and more importantly, we have to look more carefully at the claim that globalization brings convergence of income among the participating countries with poor countries growing faster and presumably catching up with the rich. This is an important tenet in the mythology of benign globalization because it is supposed to show the benefits of globalization reaped by the poor countries. (Notice that the proper unit of analysis here is country. We are not concerned with whether globalization makes the world more equal or not, in which case we would need to calculate inequality across world citizens, as for example done by Bourguignon and Morrisson (2000). Here, we are simply concerned with the so-called theory of convergence—namely that the poor countries, when they open up, grow faster than the rich.) And indeed Williamson and Lindert (2001) make that conclusion by showing the wage convergence between the densely-populated West European economies and the sparsely populated (and resource-rich) "New World". As people migrate from Western Europe to the United States or Argentina, wages and income per capita converge. Apodictically, Williamson and Lindert write (2001, p.13): "Real wages and living standards converged among the currently-industrialized countries between 1850 and World War I." They do accept that even as migration and trade contributed to wage equalization among the participants, capital flows which favored the richer countries (that is, flowed toward the rich rather than toward the poorer countries) were an "anti-convergence force." (p. 17). Yet, on balance, their conclusion is that "prewar [World War I] globalization looks like a force equalizing average incomes between participating countries" (p. 18). But let us look if that was really so.

We have three sources of data on incomes (GDP per capita) for the period stretching from the early 19th century to 1913. They are produced by Angus Maddison (1995, 2001), Paul Bairoch (1997) and Leandro Prados de la Escosura (2000). The countries we want to include—and they are mostly the only ones for which the data are available—are those that were all part of the broader Atlantic economy, the key participants in globalization. These are the rich WENAO (Western Europe, North America, and Oceania) countries. Their number varies between 18 and 20 in Bairoch's series, 13 (but only in 1850) and 21 in Prados de la Escosura's series, and 19 in Maddison's data.[5] Consequently, the country coverage is fairly standard and constant.

[5] The countries are: Austria-Hungary, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom in Western Europe; United States and Canada in North America, and Australia and New Zealand in Oceania. Note that Finland, Ireland and Norway were not independent countries for most of the period; Greece, up to 1830, while Germany and Italy are presumably included in their post-Unification shapes.

We look at whether there was convergence or not of mean incomes (GDPs per capita) by calculating Gini coefficient across GDPs per capita of these countries, with each country being given the same weight.[6] If there is convergence, the Gini coefficient should go down. Yet as Figure 1 shows, the story is not at all that simple.

Figure 1. The Gini coefficient of GDPs per capita of rich countries, 1800-1938



Source: calculated from Bairoch (1997, vol. 3, p.69), Bairoch (1997, vol. 2, pp. 252-3), Maddison (1995, pp. 194ff; and 2001, Appendix A), Prados de la Escosura (2000, pp. 24ff).

According to Bairoch, during the peak period of globalization 1870-1913, incomes between the rich countries continued to diverge: the Gini coefficient of their GDPs per capita increased by 5 Gini points, or by almost a third, rising from 15.8 in 1870 to 20.9 in 1913. According to Maddison, inequality is about the same at the beginning and at the end of the period. Both Bairoch and Maddison use GDPs per capita expressed

[6] This is a variant of the so-called σ convergence, but a preferred one, we hold, because Gini is a better and more common measure of inequality than standard deviation.

in PPP (purchasing power parity) terms anchored, respectively, in US 1960 prices and 1990 international prices (Geary-Kramis dollars). Prados de la Escosura uses current PPP exchange rates—which means that his GDPs per capita are not comparable across time—to derive the rankings of about the same set of countries over the period 1850-1938. Only his data show an income convergence among the rich countries starting in 1860 and ending on the eve of the World War I. [7]

Thus, the evidence of income convergence among the subset of rich globalization participants which we were led to expect to have been the norm during the previous globalization episode turns out at a closer inspection to be far from water-tight. We see that depending on the author and on the PPP rates used, rich countries show either a divergence, or stability, or convergence of their incomes during the period 1870-1913. [8]

Having criticized the dominant approach for showing only a selective picture of globalization, we need to extend it in two additional directions. First, in time by considering the same WENAO countries during the period prior to 1870, on a well-founded assumption that globalization had started by the turn of the 19th century. There we notice, according to Bairoch's data, a strong divergence between 1800 and 1870—a divergence which makes sense when one reflects that at the turn of the 19th century income differences between European countries were minimal. The Gini, according to Bairoch, more than doubles from 6.2 in 1800 to 15.8 in 1870. Even Maddison's data show a significant increase in inequality, with the Gini rising from 17.1 in 1820 to 20.5 in 1870 (that is, by 20 percent). Thus, among the rich countries, once we extend our gaze past the peak period of globalization, there was a clear process of income divergence.

Second, we need to extend the analysis in space, by including other countries. Here, we are, of course, on shakier grounds because none of the authors presents

[7] One explanation of the fact that inequality measured by using current exchange rates (Prados) declines, while inequality measured using PPP-constant exchange rates increases (or stays the same) is that price structures between the countries have become more similar (see Dowrick, 2001, p. 16).

[8] By the way, even the alleged divergence (Williamson and Lindert, 2001, pp. 18-20) during the inter-War "globalization backlash" is not evident: according to Bairoch, incomes *converged* during that period, according to Prados de la Esconsura, they diverged.

consistent series for both the rich (WENAO) countries and some of the most important future Third World countries. Yet, if we reflect that in 1760, Indian per capita income was between 10 and 30 percent inferior to the British per capita income (Bairoch, 1997, vol. 2, p. 845), while in 1800, Chinese per capita income was equal or higher than the British,[9] it becomes clear that, on a *global scale,* there must have been even much greater divergence between 1800 and 1913, and that during the heyday of globalization in 1870-1913, that divergence must have continued unabated.

Moreover, income *declines* among the non-European participants in the globalization process were an integral part of the process itself: Indian deindustrialization is directly linked to the British colonial commercial policy; large transfers out of Indonesia and most of Africa were part and parcel of globalization. Most importantly, a typical "colonial contract" or (more properly called) a "colonial *diktat*" (see Bairoch, 1997, pp. 665-669, vol. 2) precluded autochthonous industrial development of the conquered parts of the world. According to Bairoch, the "colonial contract" was the main cause of non-transmission of industrial revolution outside Europe since it implied that (i) colonies can import only products from the metropolis and tariff rates must be low, normally zero percent, [10] (ii) colonial exports can be made to the metropolis only from which they could be reexported, (iii) production of manufactured goods that can compete with products of the metropolis is banned, and (iv) transport between colony and metropolis is conducted only on metropolis' ships. Economic policy of the colonies (to

[9] Braudel (1984, p. 534), using Bairoch's calculations, gives Chinese GDP per capita as $282 (at US 1960 prices). According to Bairoch (1997, vol. 2, pp. 252-3), British GDP per capita in 1800 was $240. Maddison (2001, p. 90) estimates British GDP per capita in 1820 at $2, 121 (in 1990 international dollars), China's GDP per capita at $ 600, and India's at $533. If we then set United Kingdom=1 in both Bairoch and Maddison, China is 1.17 in Bairoch and 0.29 in Maddison; India is 0.7-0.9 in Bairoch, and 0.25 in Maddison. Although the differences between the two authors are often large for other countries as well (e.g. Maddison gives Australia's GDP per capita in 1850 at $3,070; recalculated in the same prices, Bairoch's estimate for the same year is $1,680), differences in the estimates of the Chinese and Indian GDP per capita are even larger.

[10] Their maximum was often set at 5 percent, but at times when such a maximum was imposed for fiscal reasons (as in India in 1894), British industial interests demanded that a similar local tax be imposed on Indian products so "as not to discriminate British exports" (Bairoch, 1997, vol. 2, p. 860). After the first Opium war, Britain imposed to China a maximum tariff range between 5 and 9 percent. In a historical curiosum, note that similar tariff preferences were imposed by Venice, and later by Genoa, on the declining Eastern Roman Empire from 12th century onward (see Runciman, 1932) .

the extent that there was any independent economic policy) was therefore entirely subjugated to the interests of the metropolis, the most important objective being to prevent industrial competition from the colony. [11]

While we lack, as already mentioned, generally accepted estimates of GDP per capita for the future Third World countries, we do have estimates of their levels of industrialization. And since these are closely linked with GDP per capita (and in the 19th century were even more so[12]), we can observe not only the relative decline of the Third World but its absolute impoverishment over the 19th century (see Table 1 reproduced from Bairoch, 1997, volume 1, p. 404).

Table 1. Level of industrialization (manufacturing output per capita), 1800-1913 (UK 1900=100)

	1800	1830	1860	1880	1900	1913
Total developed countries	8	11	16	24	35	55
Total Third World	6	6	4	3	2	2
Memo:						
United Kingdom	16	25	64	87	100	115
United States	9	14	21	38	69	126

There we clearly see that other facet of globalization: there can be little doubt that globalization was responsible for the economic decline of the countries that at the turn of the 19th century were at about the same level of development as Western Europe, that is, India and China. For other conquered lands which were less advanced than Western Europe, 19th century globalization brought colonialism, which prevented their industrialization and thus development. Now, this is not to argue that the underdevelopment of the Third World was the *cause* of the First World's development as some hold (Frank, 1998). It suffices to take a much more moderate and well-argued position as Bairoch's and to see globalization and colonialism as a cause of Third World

[11] Parts of the "colonial contract" (e.g. ban on production of competing manufactured products) applied to the European offshoots as well. This was, in effect, one of the main motivations behind the drive for American independence. North American producers were not allowed to process pig iron, and had to sell it to Great Britain only where of course it would be processed and reexported (Bairoch, 1997, vol. 2, p. 667, and vol. 1, p. 462).

[12] The correlation between level of industrialization and GDP per capita in both 1900 and 1913 is about 0.7 (calculated from Bairoch, 1997).

decline, but not as a cause of First World success—the latter one having been essentially endogenous to the West.[13] [14]

In conclusions, we find first, that during the 19th century, globalization was accompanied by a growing divergence in incomes between the countries of the world, and second, that even among the leaders in this process, the rich countries, there is no conclusive evidence that incomes differences did not widen. So, basically, it is divergence all around that was brought by the previous bout of globalization.

Let us now move to the interpretation of the more recent economic record made by the unconditional partisans of "real" globalization.[15]

5. Misinterpreting the recent economic record

Consider the following two tables (Tables 2 and 3). Let us then suppose that we show them to a Martian visitor endowed with elementary arithmetic knowledge and tell him three things: first, that more growth (higher income) is better than lower growth (and lower income); second, that WENAO is the richest region and that we would ideally like to see differences between the rich and poor regions decrease; and third, that the first period (1960-78) is called a period of "import substitution" in Latin America, most of Asia, and Africa; Communism in Eastern Europe/FSU, China, Vietnam; and "welfare state" in the rich countries, while the second period is called the "period of structural adjustment" in Latin America and Africa, "transition to market economy" in Eastern

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[13] Furthermore, if we extend the origin of globalization back in time, say dating it from the European conquest of the Americas, then the same conclusion is only reinforced. The Spanish conquest produced a dramatic decline in population and average incomes in the South and Central America (note that prior to the conquest, Central America's urbanization rates were probably greater than Europe's, Bairoch, 1997, vol. 2, p. 546), while growth of slave trade did the same for Africa.

[14] As Bairoch (1989, p. 238) writes: "…I hasten to insist on the fact that if colonization did not play an important role in explaining 'why we [the West] became rich', it played a crucial role in explaining 'why they [the Third World] remained poor' and even why, at a certain stage of history, 'they became poorer'."

[15] For those who have not had the chance to folllw Communist jargon, the "real" is a pun on the "real socialism", the appelation invented by the Soviets in the 1970's, and similarly meant to convey the feeling that their Communism, like today's globalization, was the only right one—because "real."

Europe/FSU, and "retrenchment of welfare state" in the rich world. And then we ask him to choose which period he thinks was better.

Table 2. Unweighted regional GDP per capita levels and growth rates, 1960-1998

	GDP per capita (in 1995 international prices)			Growth rate of GDP per capita (%, p.a.)	
	Year 1960	Year 1978	Year 1998	1960-78	1978-98
Africa	1514	2147	2432	2.0	0.6
Asia	1971	5944	7050	6.3	0.9
Latin America	3458	5338	6329	2.4	0.9
E. Europe/FSU	2093	5277	4851	5.3	-0.4
WENAO	8257	14243	20990	3.1	2.0
World	*3277*	*5972*	*7456*	*3.4*	*1.1*

Note: Each country is one observation.

Table 3. Population-weighted regional GDP per capita levels and growth rates, 1960-1998

	GDP per capita (in 1995 international prices)			Growth rate of GDP per capita (%, p.a.)	
	Year 1960	Year 1978	Year 1998	1960-78	1978-98
Africa	1539	2007	2033	1.5	0.1
Asia	963	1945	3967	4.0	3.6
Latin America	3297	5460	6353	2.8	0.8
E. Europe/FSU	2206	5361	4290	5.1	-1.1
WENAO	9792	16438	22594	2.9	1.6
World	*3058*	*4940*	*6498*	*2.7*	*1.4*

Note: Each country is one observation, but each observation is weighted by country's population.

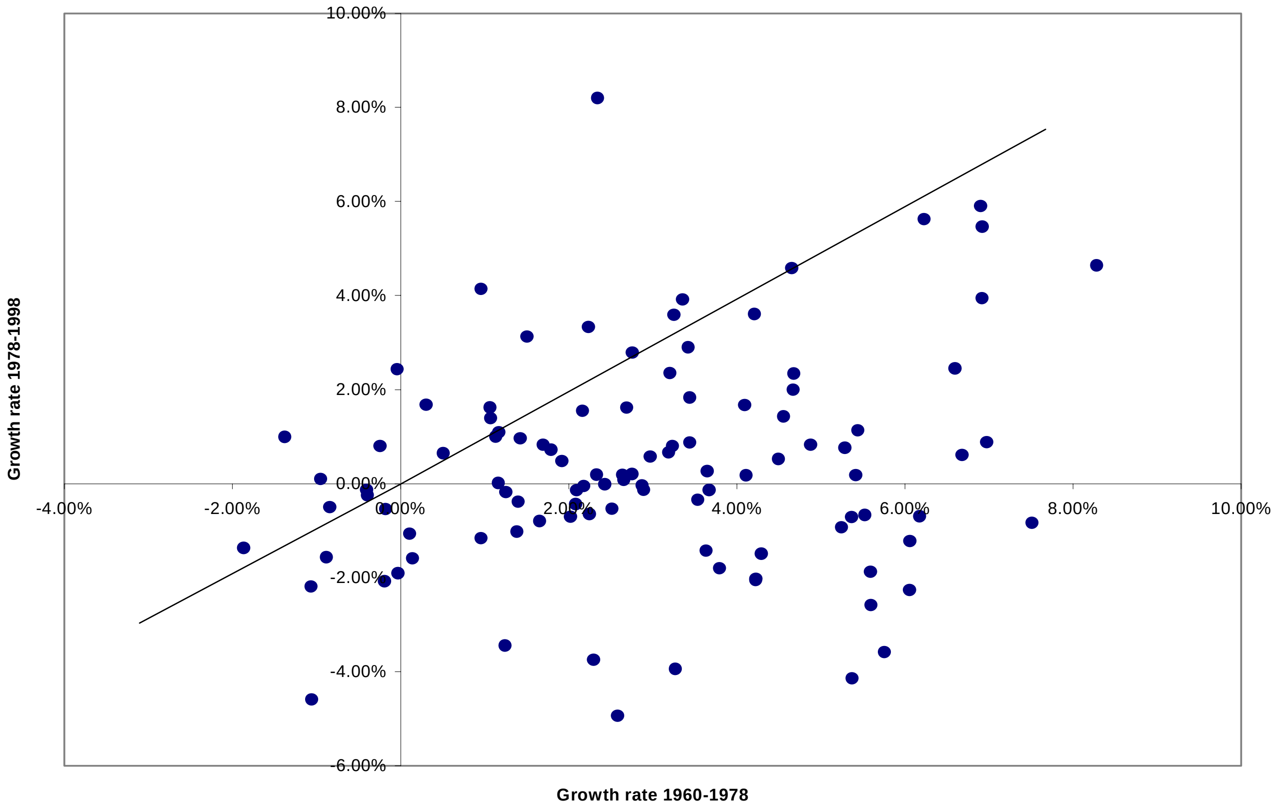
Well, his decision should not be too difficult. He would first observe that whether he looks at the world mean unweighted GDP per capita only (so that each country counts the same) or at the population-weighted world GDP per capita, growth rate was between two and three times greater in the first period. Then, he will notice that whatever region he selects, and whatever concept of growth he uses, growth rate is always higher in the first period than in the second. That would provide him with some additional confidence that the first period was better.

But then he might remember our instruction that we would also like regional incomes to converge. Yet there too, he will notice that according to unweighted GDP per capita, in the first period, two out of four poorer regions grew faster than WENAO, while in the second, all of them grew slower than WENAO. If he wanted to confirm that finding by looking at what happened to an average citizen of each region, he would notice again that in the first period, average per capita incomes in Eastern Europe/FSU and in Asia grew faster, and in Latin America about the same, as in WENAO. But in the second period, average incomes in Africa, Latin America and Eastern Europe/FSU were about stagnant or mildly declining (with per capita growth rates ranging from –1 to +0.8 p.a.), while WENAO grew by 1.6 percent p.a., and Asia, mostly thanks to China, by 3.6 percent p.a. Thus, he would conclude that, by the regional convergence criterion too, the first period was better.

In addition, we might provide our Martian visitor with some further statistics. Consider Figure 2 which shows the average GDP per capita growth rates of all countries in the world (save the rich WENAO) during 1960-78 and 1978-98. Out of 124 countries, 95 grew faster in the first period. Notice not only that most of the dots are to the right of the 45-degree line, but also that there is a large number of the dots in the South-Eastern quadrant. These are countries whose growth rates have switched from being positive—and often highly so—in the first period, to being negative in the second.[16]

[16] All the current countries are projected backwards using their past republican/provincial growth rates. This therefore represents probably the most detailed country growth database (see Milanovic, 2002, forthcoming). The main building blocks for the database were World Bank SIMA countries' statistical yearbooks, Penn World Tables, and Maddison (2001). All GDPs per capita are expressed in 1995 international dollars.

Figure 2. Average real GDP per capita growth rates in 1960-78 and 1978-98
(124 non-WENAO countries)



Source: World Bank SIMA (Statistical Information Management and Analysis) database, countries' statistical yearbooks, Maddison (2001) and Penn World Tables.

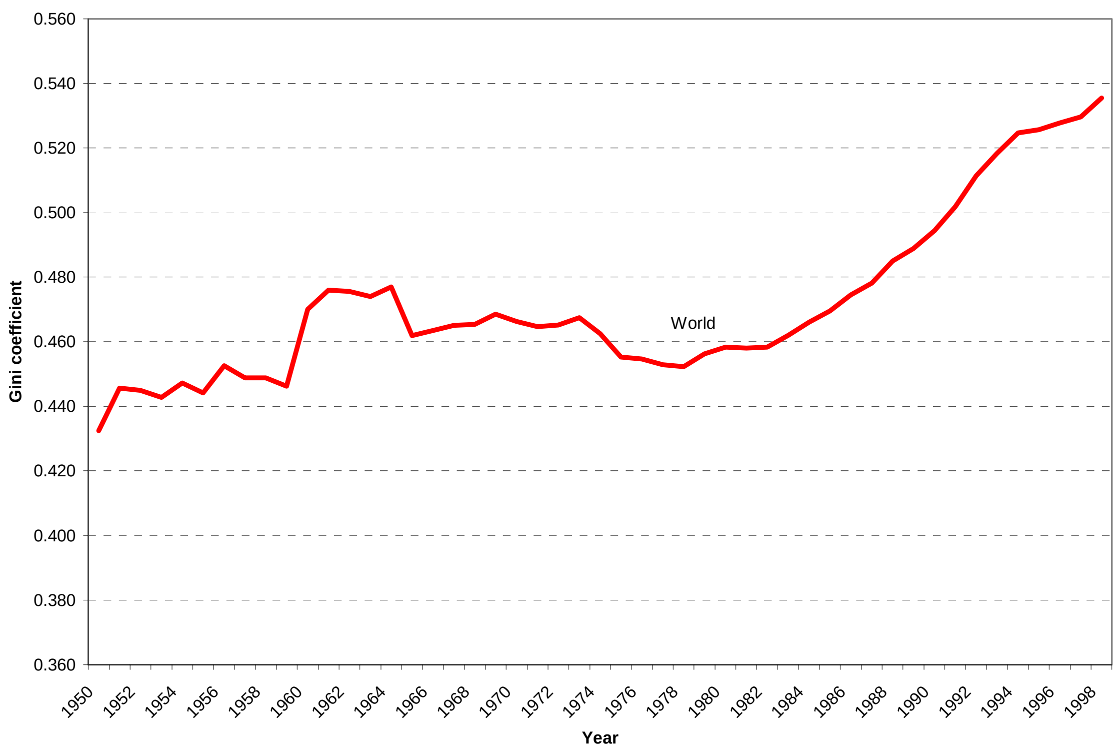
Then, our Martian visitor would come back to us, and naively announce that he has definitely concluded that the first period was better since most countries grew faster then, and most of the poorer regions tended to catch up with the rich world. He would have thought that the test was rather easy and that he has done pretty well.[17]

Unfortunately, our Martian is not a good economist. Our mainstream economist will have to convince him that the *second* period—the period of structural adjustment and

[17] The first, to my knowledge, to have noticed and discussed, with great wealth of details and econometrics, the discrepancy between the "improved" policies in LDCs during the last two decades, and more than disappointing results (worse than in the previous two decades) is Bill Easterly (2001).

globalization—was actually better. It is going to be a hard sell, but it can be done. First, our economist will concede the fact that there was a divergence in countries' performance since the end of the 1970's and that poor countries have tended to grow slower (or even to decline) than the rich countries. As shown in Figure 3, the Gini coefficient of the GDPs per capita of all countries in the world, after being roughly stable between 1960 and 1978, has inexorably risen since 1978, from a Gini of about 46 to a Gini of 54 today—a huge increase of almost 20 percent.

Figure 3. Gini coefficient: Unweighted inter-national inequality, 1950 to 1998



Source: Milanovic (2002, forthcoming). 144 countries included. All current countries (e.g. Russia, Bangladesh, Serbia etc.) projected backwards in order to avoid spurious Gini increase due to a greater number of observations/countries. Each country/year is one observation.

But the economist will claim that the divergence in incomes is due to some "bad" countries which, unwilling to globalize, have chosen the wrong policies. So, he would like to expunge the world of these "bad" countries and to show that there was indeed a convergence in incomes among countries that adopted "good" policies and globalized.

This approach, the "weeding" of the "bad" from the "good" countries was adopted by Dollar and Kraay (1999) and by the recent World Bank report on globalization (World Bank, 2002). These studies select countries that are globalizers using the ratio of exports and imports over GDP (that is, trade openness) and then show how such countries' GDP per capita has either tended to catch up with rich countries' GDP per capita, or how their growth rates have gradually accelerated from decade to decade as openness ostensibly progressed. We shall show in detail, largely following Rodrik (2001), what is wrong with this selection criterion. But before we move to that, consider the prelude. Since the catch-up is defined in terms of mean *population*-weighted income of the "globalizers", and since China is among these, and since China has had such a remarkable growth record over the last two decades, the authors should not have even bothered to include other countries. All that is needed to obtain the desired conclusions is that China's growth accelerate (as shown in World Bank, 2002, Figure 1.12).[18]

Because China is a favorite example of the "openness is good for you" school, it is worth considering it in a somewhat greater detail. Now, one may find it rather strange that the key proof of beneficence of global capitalism is provided by one of the few remaining Communist countries. Of course, the partisans of "real" globalization argue that China is a Communist country in name only, and that it is its integration with world economy and de facto introduction of markets that matters for China's growth. Yet, the fact that a Communist country's record is wheeled out to defend capitalism is not merely a *boutade*. Almost one-third of China's industrial output is still produced by state-owned enterprises, and almost 20 percent of total GDP, a fraction higher than in any country in the world save for North Korea, Cuba, and a few former Soviet republics—a level of

[18] This is incidently a wrong way to formulate the convergence question. Convergence is always defined in terms of *countries*. If we were interested is the world were becoming a more equal place, the proper way would be to study distribution of income among all *citizens* of the world. The criterion used in World Bank (2002) is neither, and is moreover the only one capable of producing the desired results.

state involvement unlikely to be endorsed by mainstream economists.[19] Secondly, one of the pre-conditions for China's growth was arguably the set of policies that is also an anathema to today's mainstream view: nationalization, widespread and free education at all levels, impediments to the free circulation of labor which kept lots of people from migrating into cities, land reform and abolishment of large land-holdings—all hardly a favorite policy prescription for a developing country. And, finally, little noticed is a paradox pointed out by Weizman and Xu (1997) that, by far, the most dynamic sector of the Chinese economy is that of Township and Village Enterprises (TVEs) whose property rights are the very example of non-transparency: a TVE is legally owned by a "community", village or a township, is run by managers, or capitalists, seeks private capital but pays no dividends…In effect, TVE is all that an efficient enterprise should *not* be. Yet it is this sector that shows the most significant progress. Thus, China, on these grounds alone, can hardly be adduced as an example of success of the current mainstream economic policy prescriptions.

But the very process of "selecting" the good globalizers based on trade ratios is flawed, as argued by Rodrik (2000). He points out to several, including technical and data-selection, problems in the Dollar and Kraay analysis, out of which two seem most important : (i) globalizers are selected based on a combination of an outcome indicator (trade over GDP) over which policy-makers have no control and another which they do control (level of tariff rates), [20] (ii) in both India and China, which, as mentioned, are used as the prime examples of "good" globalizers, main trade reforms took place after the onset of faster growth. The Chinese case is, as Rodrik writes, well known: high growth began in the early 1980's, while trade liberalization followed more than a decade later. Throughout the 1980's and until 1995, the average weighted tariff rate in China was about 40 percent (Figure 4)—a rate twice as high as the average for developing countries,

[19] These numbers refer to 1998 and include only the value added of industrial and construction sector SOEs. They do not include mixed-ownership sector or TVEs. Calculated from the Statistical Yearbook of China 1999, pages 55, 432, 473.

[20] As Rodrik (2000, p. 1) writes: "Saying that 'participation in world trade is good for a country' is as meaningful as saying that 'upgrading of technological capabilities is good for growth' (and equally helpful to policy makers)."

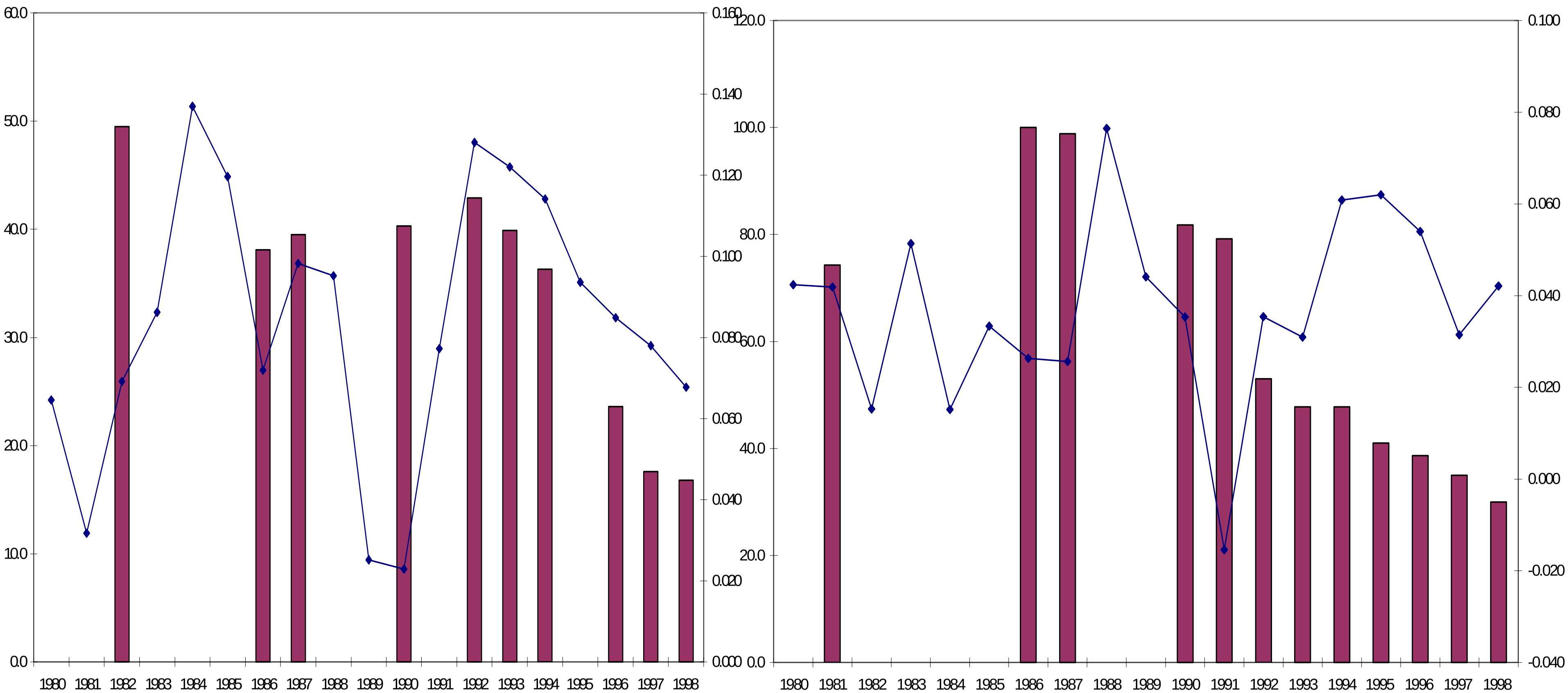
and more than four times the average of industrialized countries.[21] It is only in 1996 that the average tariff decreased to 26 percent, and has since decreased further to a level of about 16 percent.

Rodrik shows that the same pattern holds for India: while growth accelerated in the early 1980's, trade reform did not start until 1991-93. And there too, growth and expansion of trade took place under the protection of an even higher tariff wall than in China: in the 1980's, the weighted tariffs averaged 80-90 percent, and gradually came down, to the still very high level of about 40 percent (Figure 4). Dollar and Kraay (1999) have clearly fallen prey to one of (what Paul Bairoch and Richard Kozul-Wright (1996) call) enduring myths of economic theory, namely that "liberalization [is] an important driving force behind rising trade." On the contrary, trade often increased the most during the mild protectionist phases, since the latter saw acceleration in growth, and it is growth that generally leads to trade—not *vice versa* (Bairoch, 1997, p.310).

How hazardous the *Globalization, growth and poverty* report's conclusions are can be observed from the two figures below which chart China's and India's per capita growth rates and their average weighted tariff rates over the 1980-99 period. Notice that in the India chart, it is very difficult to see any correlation between the two: the growth rate oscillates around 4 percent p.a., no matter what happens to the tariff rate. Not much different is the graph for China, except that there, if anything, we notice a correlation between the slowdown in growth rate in the last five years and a reduction in tariff rates—a relationship that is exactly the opposite of the one the report claims to have found. Now, no-one can put much store by this finding: it obviously covers a very short period, and the rate of growth responds to a myriad of factors other than tariff rates. But the figures illustrate the perils of a mono-causal, and ideological, approach to the evidence.

[21] Based on World Bank calculations by Francis Ng (downloadable from <www.worldbank.org/research/trade>**.**

Figure 4. China’s (left panel) and India’s (right panel) real annual GDP per capita growth rate, and average weighted tariffs



Source: growth rates from World Bank SIMA database; tariff rates from Francis Ng (World Bank).

Tariffs rates are bars (levels shown on the left axis), growth rates (in fractiles) are lines (levels shown on the right axis).

The authors are aware that their preferred causality, low tariff rates⇒high export and import growth⇒high GDP growth cannot be proven. [22] Moreover, they are aware too that both China and India grew behind very high protective walls. How then do they deal with these issues? With respect to the first point, in a rather schizophrenic way as throughout the report there are scattered statements denying that causality can be inferred from or proven by their numbers. But these statements are no sooner ignored, and there are a number of precisely such—causal—statements. [23] The second point is elegantly circumvented by showing the *change* in average tariff rates among the "globalizers" and "non-globalizers" (World Bank 2002, p.36). But since we saw that China and India had particularly high tariff rates, it is not surprising that they reduced them more than say, Barbados or Belize which started the 1980's with tariff rates of 15 percent.

Our conclusion regarding the most recent period of globalization is twofold:

● The last two decades, which witnessed expansion of globalization, are, in terms of overall growth and income convergence between poor and rich countries, vastly less successful than the preceding two decades;

● The attempt to explain divergence of incomes by "eliminating" the countries with "bad" policies and focusing solely on those with "good" policies is flawed because the successful countries, and China in particular, did not follow the orthodox economic

[22] This choice of this particular causality is all the more intriguing since there is absolutely no reason whatsoever why high exports (themselves a components of GDP) or imprts should be bad for growth. I do not know if anyone has ever made such a claim. At issue is precisely the low tariffs⇒high growth causality. And that is very hard to prove.

[23] I do not know how otherwise one can interprete statements such as: "As they reformed and integrated with the world market, the 'more globalized' countries started to grow rapidly, accelerating steadily from 2.9 percent in the 1970's to 5 percent throughout the 1990" (p. 36), or the statement approvingly taken from Lindert and Williamson (2001), "We infer that this is because freer trade stimulates growth in Third world economies today, regardless of its effects before 1940" (p. 37). Or as Dollar and Kraay (2001) write: "We provide evidence that, contrary to popular beliefs, increased trade has strongly encouraged growth and poverty reduction and has contributed to narrowing the gaps between rich and poor worldwide."

advice. One can be pretty confident that if China had exactly the same policies, but a miserable record of economic growth, those who hail it now, would flaunt it as an example of how harmful to growth are state ownership, undefined property rights in TVEs, and high tariff barriers.

6. The two narratives and the need for "readjustment of adjustment"

We can illustrate the difference between the dominant focus on the benign aspect of globalization alone from a more even-handed presentation of globalization's two sides: the benign and the malignant. Consider the following two historical narratives of the same set of events.

The dominant narrative goes approximately as follows. Towards the end of the 18th century, there was Industrial revolution that from Europe slowly, and unevenly, spread to the rest of the world. At the end of the Napoleonic wars, the world entered a period of almost uninterrupted peace lasting 100 years. During that period global capitalism appeared: it spread to the rest of the globe, connected Europe with the Americas, Asia, Africa. The leading countries of the period grew the fastest, their incomes converged as trade blossomed, people freely migrated to better places, and capital flowed wherever it wanted. Then, suddenly, the calamity of World War I struck, the world got inflamed, Communism and Fascism emerged, nationalism and protectionism became rampant, trade declined, nations' incomes diverged, until another, worse, calamity of the Second World War struck. After the War, global capitalism could not, for a longtime, get a free rein because large parts of the globe fell under the Communist sway. It is only in the 1980's, as China liberalized and the Soviet empire broke up and abandoned Communism, that globalization, with its attendant growth for most, if not all, could come back again. "Happy days are here again", but we must not forget that the ogres of nationalism and protectionism lurk behind the corner. So give freedom to capital, let profit be your guide, and growth is guaranteed to all.

This is, with some poetic embellishment, the most common view of events of the last two centuries, perhaps (one might surmise) because the people who subscribe to that narrative have tended to experience the benign side of globalization only. The objective of that narrative is not to stimulate discussion, but to stifle it, similarly to the dominant narratives used in the Communist countries where too the main purpose of the accepted view of history was to generate the acquiescence to the dogma. The point is well made by Edward Said (2002): "In this day, and almost universally, phrases such as 'the free market', 'privatization', 'less government' and others like them have become the orthodoxy of globalization, its counterfeit universals. They are staples of the dominant discourse, designed to create consent and tacit approval…The main goal of this dominant discourse is to fashion the merciless logic of corporate profit-making and political power into a normal state of affairs."

It is relatively easy to explode this rosy story of the world, told by the first narrative. One needs only to ask three simple questions: (i) where are conquest, colonialism, and slavery in this narrative; (ii) how does the narrative explain the outbreak of World War I, and (iii) why did capitalism suddenly become more tamed and civilized ("social market economy") after the end of World War II? To answer these questions, consider the following narrative of the same events.

After the technological and social revolutions occurred in Europe, its North-Western part became the most advanced region of the world. It set out first timidly, and often out of adventurism, then more seriously to conquer the rest of the world. As it conquered the nations, the winners established the rules that were economically advantageous to themselves, developed further the already existing slave trade, and by flooding markets of their colonies (devoid of independent commercial and economic policy) with their own manufactures, contributed to colonies' de-industrialization. All the while, gross coercion, wars, and even genocides went on in the colonies—perhaps not very much noticed in Europe. So, the days of universal peace were quite far from being truly so.

But European powers bent on conquest were, at the same time, in struggle with each other. Their imperialism begot the Great War—the very war whose impossibility, because of intricate economic ties between leading nations, was proclaimed in the famous Angell book published just years prior to the carnage. After a truce of twenty years, the Second World War erupted—a straight continuation of the First. Fascism was defeated but Communism came out stronger and spread to cover 1/3 of the world's population. Under Communist threat from the outside, and under pressure of growing social-democratic and Communist movements at home, the capitalist regimes, already enfeebled by the Great Depression, conceded to dramatic and far-reaching social reforms. The nature of wild capitalism of the 19th century changed dramatically with the introduction of unemployment benefits and pensions, paid vacations, 40-hour working week, guaranteed and free education and health care for all, trade union protection of workers' rights. In the Third World countries that became liberated, dreams of industrialization and catching-up could be realistically entertained as countries grew fast and import-substitution became the dominant approach to development. But then under the shock of rising petroleum prices, high interest rates, and large debts, Third World growth sputtered. In the West, the ideological pendulum swung against the welfare state. The social-democratic movement weakened, the collapse of Communism eliminated the external threat, and made global capitalism again, like in the 1870's, entirely free to pursue unhindered its objectives of profit maximization—without much regard for social consequences.

To question the profit objective is not to denigrate its importance, much less to argue that it should not be an important, perhaps the most important, criterion. But it should not be the sole criterion. It needs to be tempered by other considerations, akin to the way that national capitalisms after World War II were "civilized" by the role of the state and strong social-democratic parties. The erection of "financial viability" as the only acceptable norm will not lead to imperialist wars as it did in 1914, but will exacerbate the negative effects of global capitalism which we already see, and which have grown in importance during the last decade or so—precisely the period during which the earlier constraints on the free play of capital were weakened or abandoned.[24] Let me mention a few of these effects: very high and/or increasing spatial and inter-personal inequality, blatant theft of public resources masquerading under the name of privatization and cheered on by most economists and international organizations, growth of slums, deteriorating labor conditions, return of the long-forgotten diseases like tuberculosis, declines in education enrollment rates, dramatically increased mortality in most of the former Soviet republics and Africa, deforestation, growth of worldwide networks of mafias and drug cartels, even modern day slavery through development of piracy and abduction of women and children for prostitution. [25] Capitalism left to itself will always produce these effects. If people want to sell themselves, why shouldn't they? If parents do not want to send children to school, why not allow them the choice? If university education is no longer free, perhaps a child from a poor family can borrow to pay for it? If people do not have money to pay for a cure or a drug, what can be done, this is called cost recovery? [26]

[24] Gunter Grass (2002) puts it as follows: "In the fifties, sixties, and even in the seventies, a relatively succesful attempt to civilize capitalism was made across Europe. If one assumes that socialism and capitalism are both indegenous, wayward children of the Enlightment, they can be regarded as having imposed certain checks on each other. Even capitalism was obliged to accept certain responsibilities. In Germany this was called the social market economy….The consensus broke down in the early eighties. And since the collapse of the Communist hierarchies, capitalism—recast as neoliberalism—has felt it could run riot, as if out of control. There is no longer a counterweight to it. Today even the few remaining responsible capitalists are raising a warning finger…and see neoliberalism repeating the mistakes of communism—issuing articles of faith that deny that there is any alternative to the free market and claiming infallibility."

[25] Kanbur (2001) writes of the spread of "obnoxious goods."

[26] The day after I distributed the first version of this paper, a newspaper article in the *Washington Post* tried to answer the question why, more than a decade after the end of Communism in the Soviet Union, and two decades after the rejection of Maoist legacy in China, a Maoist movement in Nepal (a multi-party democracy) is making progress and can claim support among most of Nepal's peasantry. The explanation (Odenheimer, 2002) is worth quoting *in extenso*:

"The World Bank and the International Monetary Fund often made economic conditions worse for poor Nepalese. Heeding advice from the Bank and the IMF, the Nepali government cut state subsidies, including those that helped farmers buy fertilizer and seeds. The country's education and health systems were privatized to the point that most Nepalese, even if they work 14-hour days, cannot afford to send their children to school or take them to the doctor when they are sick. Meanwhile, the World Bank supported huge hydroelectric and other massive infrastructure projects that brought windfalls to international companies and corrupt Nepali officials, while utility costs for the average Nepali continued to rise. In the face of this poverty and corruption, the Maoists have been playing the role of Robin Hood. Tenant farmers told me that they had been freed from the grip of their landlords after a few well-placed Maoist threats. Maoists have swooped down on agriculture banks and recaptured the land deeds that had been put up for

While overt colonialism is a thing of the past, the rules are far from being even-handed as between the poor and the rich countries. They are slanted in favor of those who wield power. Khor (2001) gives some examples from the multilateral trading system: the well-known example of intellectual property rights, [27] differential treatment of subsidies (subsidies for R&D are exempt from counter-action while the subsidies used by developing countries, for industrial upgrading, are not), standards that are being set without effective participation by the LDCs, the high costs of raising and pursuing a trade dispute. We can compare the last point to the problem that Jewish survivors in Eastern Europe faced in trying to get the money impounded by the Swiss banks: how is a grand-mother surviving on $100 a month, and not speaking English or French, going to sue a Swiss bank?

Because we are now dealing with global capitalism, the role of "moderator" can no longer belong to the nation-state, but to international (global) actors. It is where the international financial institutions (IFI), such as the World Bank, enter. Continued misinterpretation of the disastrous results brought to most of Africa, Latin America, and Eastern Europe by about two decades of unabashedly free market policies will not prompt a review of these policies, and will, on the contrary, allow their continuation with probably equally bad results.[28] It is therefore incumbent on us to examine the actual results, and not the ideology of what these policies *should* have brought had they worked as originally intended. We must thus address some uncomfortable issues. Let me mention but three:

collateral by poor farmers who had taken development loans that they couldn't repay. The Maoists set up people's courts where disputes were tried without fees or bribes. Women used the people's courts to successfully prosecute cases of wife beating and rape..Agents who enticed village girls to India and then sold them as prostitutes in Bombay—which happens to about 5,000 young Nepalese women a year—were caught and punished. Previously they often escaped by giving a cut of their profits to officials."

[27] That poor countries have no money and expertise to enforce even the rules that may favor them is well known. I have recently noticed that there is such a thing as French feta cheese. But I remember how Armenian cognac, known to all under such a name, had to change its appelation because "cognac" is a registered trade-mark.

[28] For a review of these policies see Easterly (2001).

(i) How to explain that after sustained involvement and many structural adjustment loans, and as many IMF's Stand-by, African GDP per capita has not budged from its level of twenty years ago? Moreover, in 24 African countries, GDP per capita is less than in 1975, and in twelve countries even below its 1960's level.[29]

(ii) How to explain the recurrence of Latin crises, in countries like Argentina, that months prior to the outbreak of the crisis are being praised as model reformers;[30]

(iii) How to explain that the best "pupils" among the transition countries (Moldova, Georgia, Kyrghyz Republic, Armenia) after setting out in 1991 with no debt at all, and following all the prescriptions of the IFIs, find themselves ten years later with their GDPs halved and in need of begging for debt-forgiveness?

Something is clearly wrong. [31] Maintaining that globalization as we know it is the way to go and that, if the Washington consensus policies have not borne fruit so far, they will surely do so in the future, is to replace empiricism with

[29] Meanwhile, from a much higher level, US GDP per capita has increased by a third since 1975, and has doubled since 1960.

[30] Including in the World Bank report on globalization, issued a month before the Argentine crisis hit, where Argentina proudly belongs to the group of "well-known" reformers (World Bank, 2002, p. 35). It is demoted from that august group though in Dollar and Kraay (2002) published in February 2002. By then the crisis was all too obvious, and it was probably thought better to drop it even if logically, it was a "good" globalizer in the 1990's, there was no reason not to include it. But this is another example how the sample selection is driven by short-term ideological considerations.

Note that that in 1999 and 2000, Heritage Index of Economic Freedom, an ultra right-wing think-tank, scored Argentina's economic policies about the same as Chile, that poster-child of the neo-conservatives. Even in 2001, Argentina was scored only marginally worse (2.25 vs. Chile's), yet much better than 3.25 given to Brazil..

[31] The typical excuse that the policies were right but were badly implemented is wrong and is a very lame excuse indeed. It reminds me of the constant litany under Communism, that the Communist ideas were very good, but were either poorly implemented, or people were too wicked for such beautiful ideas. (I saw through that when I was less then twenty. I am surprised that many smart people do not see through similar excuses today; but then it is true that, at twenty, I did not have a stake in *not* seeing the truth.) A policy that does not take into account the actual situation and people as they are is inadequate. Furthermore, it is not true that even, on IFI's reckoning, the governments did not fully implement the programs. Even when they did, the results—as in the transition countries—were often unremittingly bad.

ideology. Unfortunately, it has been done before, but the consequences were not very good.

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