



Lecture 2

AAE 374 Fall 2008

- Overview of today's lecture
 - Rosenberg's article – "Free Trade Fix"
 - Empirical trends in poverty and inequality
 - Is globalization working for the middle class in US?
 - Purchasing Power Parity – lead into trade section.



Rosenberg's view of globalization and the poor

- In what ways has globalization hurt the poor in developing countries?
 - Slower growth in 'south'?
 - Inequality (no clear relationship revealed between globalization and inequality outcomes. Any ideas why?)
 - Poverty (same story but depends on growth and equity.)
 - Expanding or contracting choice? Chicken cutter versus corn farmers—do we worry about latter? Is choice the right metric?
 - Specific case of Latin America – too much mkt, too little state?
 - Does this add up to a world that will derail globalization?



In What Ways Have Global Politics Hurt the Poor?

- Intellectual Property Rights and Drugs
- Agricultural Subsidies and Protection
- 'Fin Market interests' IMF and the masters of the universe
- Develop with minimal state intervention



Can national and international policies help to make globalization work for the poor?

- Technology vs. assembly
- Why did/does Asia grow—state vs. market
- Western experience – what mix of state and market, domestic and international?
- Making globalization livable (Chile)
- Avoid one-size fits all policies for development – look at contrasts in developed and fast-growing developing countries. Fastest growing countries right now (India and China had lots of state involvement).



Empirical Trends: Poverty & Inequality

- Global Poverty Dynamics

- \$1 and \$2 Headcount measures
- Where are the most people in poverty...
- ...and what is the trend

Table 2: Numbers of people living below \$1 and \$2 per day

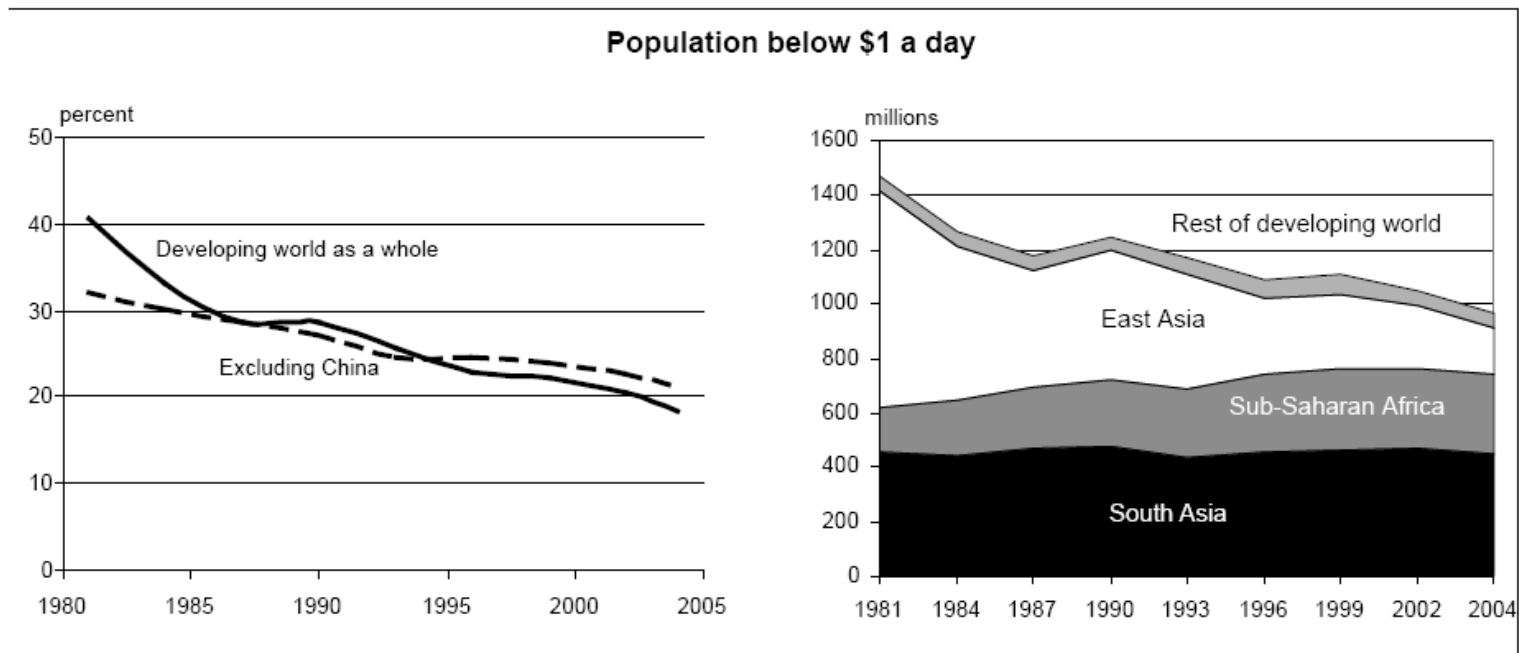
	\$1.08 per day at 1993 PPP								
	1981	1984	1987	1990	1993	1996	1999	2002	2004
East Asia	796	564	429	476	420	279	277	227	169
China	634	425	310	374	334	211	223	177	128
Europe and Central Asia	3	2	2	2	17	21	18	6	4
Latin America and Caribbean	39	51	50	45	39	43	49	48	47
Middle East and North Africa	9	7	6	5	5	4	6	5	4
South Asia	455	445	471	479	437	453	463	470	446
India	364	359	369	376	376	379	376	378	371
Sub-Saharan Africa	168	200	223	240	252	286	296	296	298
Total	1470	1270	1181	1248	1170	1088	1109	1051	969
	\$ 2.15 per day at 1993 PPP								
	1981	1984	1987	1990	1993	1996	1999	2002	2004
East Asia	1170	1116	1041	1113	1083	908	883	766	684
China	876	819	744	819	803	649	628	524	452
Europe and Central Asia	20	17	14	20	78	85	88	61	46
Latin America and Caribbean	104	126	122	115	111	122	128	131	121
Middle East and North Africa	51	49	50	49	52	55	64	61	59
South Asia	813	852	904	953	974	1031	1067	1116	1116
India	625	659	695	733	767	798	826	853	868
Sub-Saharan Africa	295	333	365	396	422	458	491	513	522
Total	2452	2493	2496	2646	2722	2666	2721	2647	2548



Right Tool for the Job?

- Looked at \$1 and \$2 measures
- Why would we want different measures for different countries?
- \$ poverty line in US?
- Is that right for Madison?
Janesville?
- Need some ways to handle this (PPP) we'll cover this Wed.

Big Global Poverty Trends





Trends in Rich Countries

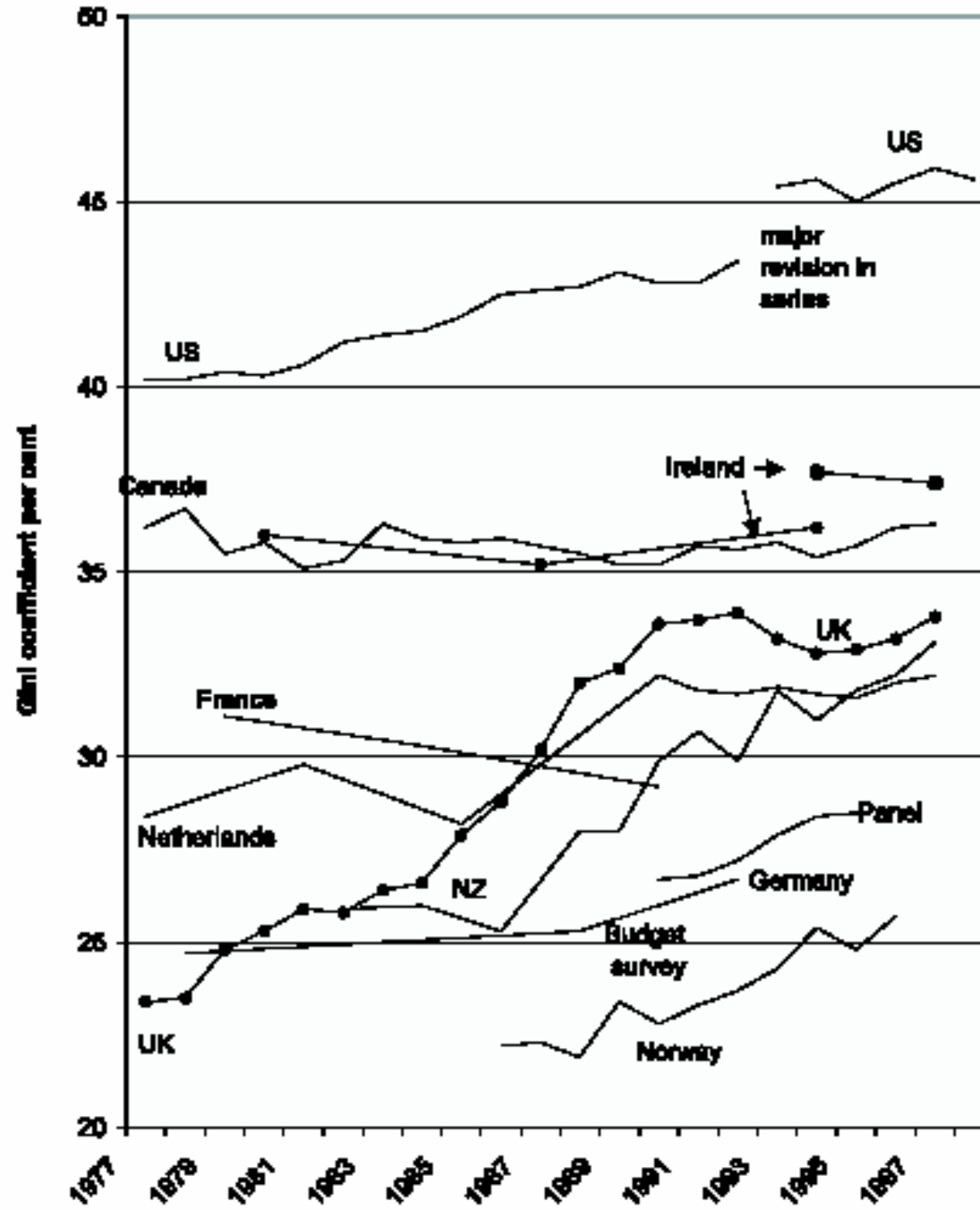
- Which are the rich? Common attributes?
- A big question: Is Globalization “working” for people in the West?
- Lots of dimensions: Start with income
- Switching from ABSOLUTE \$1/day measure (not so meaningful)
- To RELATIVE income measure



Measuring Inequality

- Many ways to measure, but Gini measure is the standard
- See notes, Weil Chap 13, Wiki

FIGURE 1
Changes in Income Inequality Since 1977





Sources of Economic Inequality

- Capital vs. labor (Rolls Royce Inequality). How does this contribute to inequality?
- 'Wage gaps' (BMW Inequality – Parag Example). How does this contribute?
- Between and within occupational categories – see figures from Acemoglu

(a) *Log 90th-10th Wage Differential for Male Workers, Selected Countries*

	Estimates using LIS data						Estimates reported by Freeman and Katz (1995)			
	Early 80s	Mid 80s	Late 80s	Early 90s	Mid 90s	Late 90s	Early 80s	Mid 80s	Late 80s	Early 90s
Australia		0.834	0.920				0.69	0.76	0.77	0.80
Belgium		0.780	0.773	0.762		0.697				
Canada			1.116	1.182	1.160	1.254	1.25	1.39	1.34	1.38
Denmark			0.913	1.307	1.096	1.059				
Finland			0.899	0.893	0.862					
Germany	0.819	0.894	1.186		1.043			0.96	0.91	
Israel	1.280	1.481		1.557						
Netherlands	0.876		0.907	0.864	0.843		1.01			1.01
Norway		0.810		0.913	1.122					
Sweden	0.867		0.920	0.864	0.880		0.77	0.72	0.72	0.77
UK	0.930	1.093		1.109	1.143		0.88	1.04	1.10	1.16
US	1.253	1.409	1.427	1.442	1.551	1.465	1.23	1.36	1.38	1.40

Note: The data for the left panel come from the Luxembourg Income Studies Database, a collection of macro datasets obtained from annual income surveys. The log 90th-10th wage differential is the difference between the 90th and the 10th percentiles of the log wage distribution for male workers.



Table 5.
Number in Poverty and Poverty Rates by Race and Hispanic Origin Using 3-Year Average: 2003 to 2005

(Numbers in thousands. People as of March of the following year)

Race ¹ and Hispanic origin	3-year average 2003–2005 ²			
	Number		Percentage	
	Estimate	90-percent confidence interval ³ (±)	Estimate	90-percent confidence interval ³ (±)
All races	36,617	494	12.6	0.2
White	24,824	399	10.6	0.2
White, not Hispanic	16,346	329	8.4	0.2
Black	8,988	242	24.7	0.6
American Indian and Alaska Native	573	65	25.3	2.5
Asian	1,335	98	10.9	0.8
Native Hawaiian and Other Pacific Islander	79	24	12.2	3.6
Hispanic origin (any race)	9,180	252	22.0	0.6

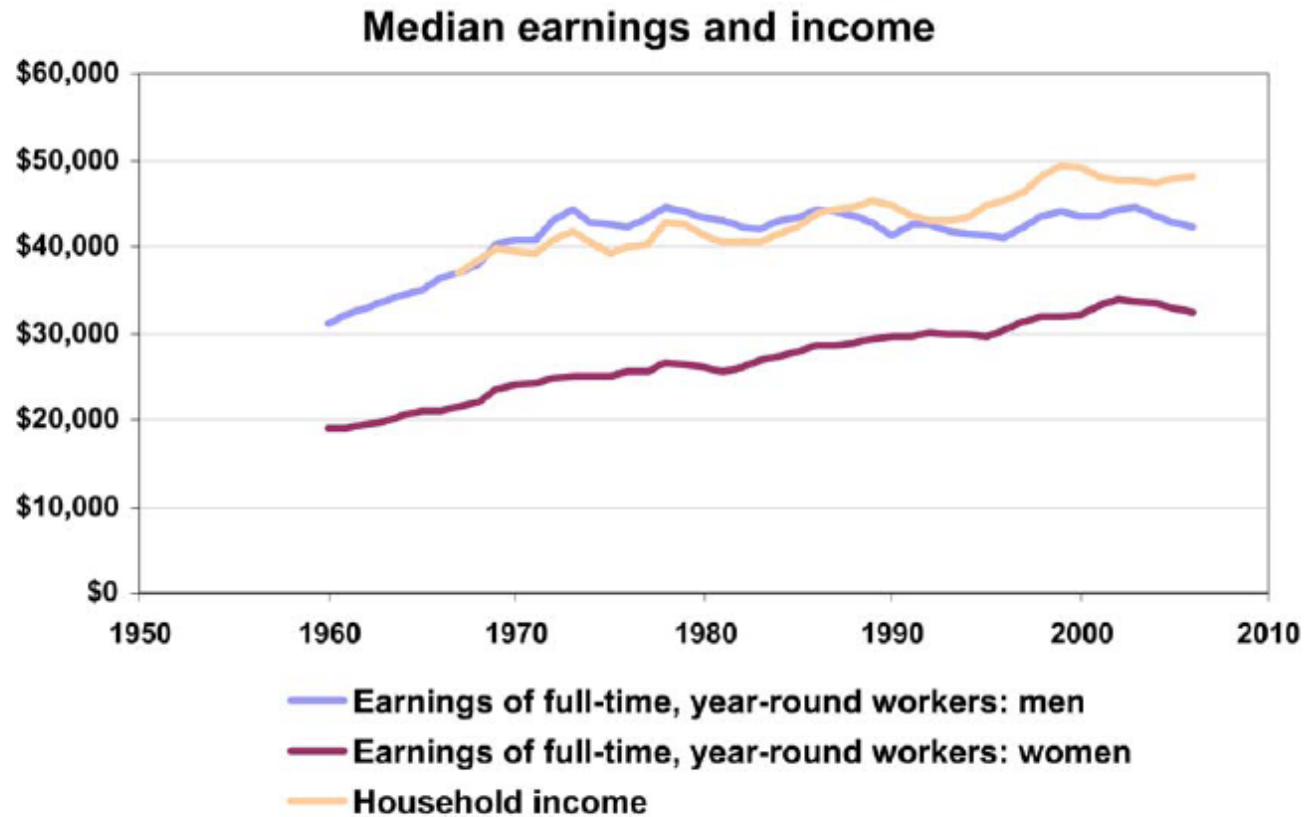
¹ Federal surveys now give respondents the option of reporting more than one race. Therefore, two basic ways of defining a race group are possible. A group such as Asian may be defined as those who reported Asian and no other race (the race-alone or single-race concept) or as those who reported Asian regardless of whether they also reported another race (the race-alone-or-in-combination concept). This table shows data using the first approach (race alone). The use of the single-race population does not imply that it is the preferred method of presenting or analyzing data. The Census Bureau uses a variety of approaches. Information on people who reported more than one race, such as White *and* American Indian and Alaska Native or Asian *and* Black or African American, is available from Census 2000 through American FactFinder. About 2.6 percent of people reported more than one race in Census 2000.

² The 2004 data have been revised to reflect a correction to the weights in the 2005 ASEC.

³ A 90-percent confidence interval is a measure of an estimate's variability. The larger the confidence interval in relation to the size of the estimate, the less reliable the estimate. For more information, see "Standard Errors and Their Use" at <www.census.gov/hhes/www/p60_231sa.pdf>.

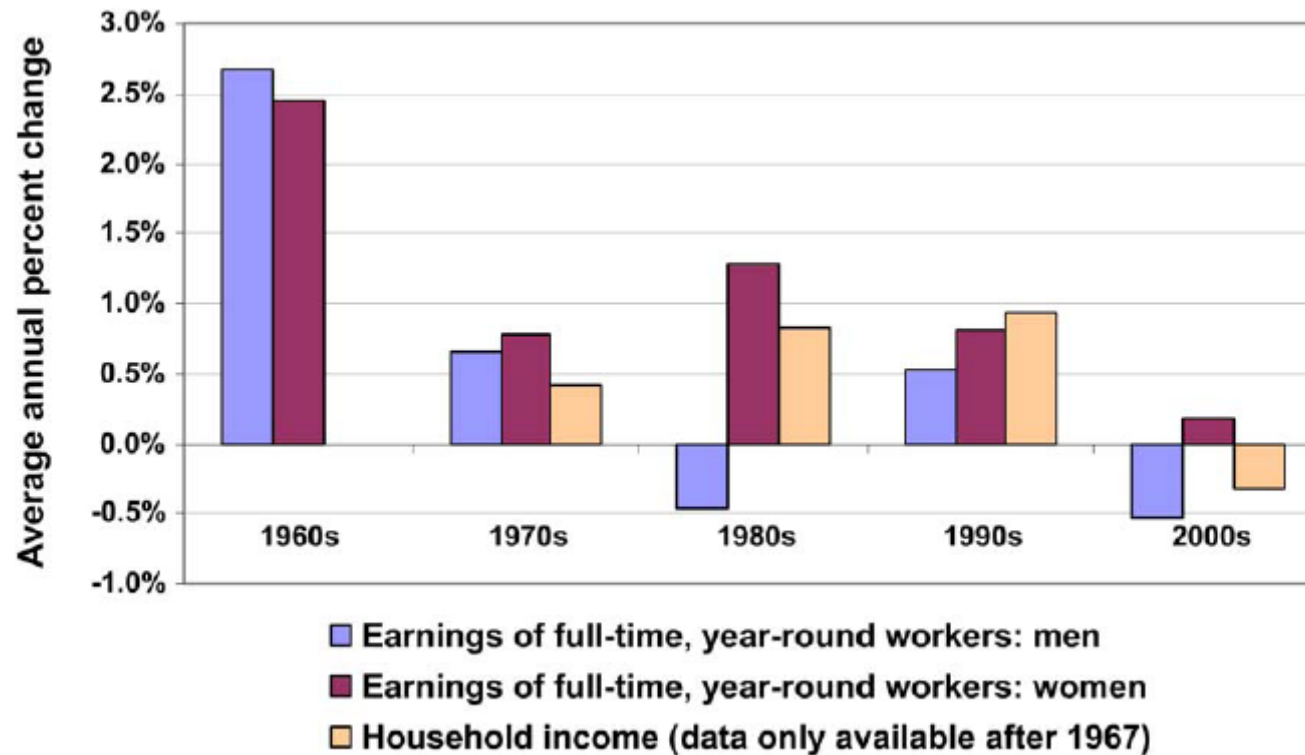
Source: U.S. Census Bureau, Current Population Survey, 2004 to 2006 Annual Social and Economic Supplements.

What about US?



Source: U. S. Census Bureau, Income, Poverty, and Health Insurance in the United States: 2006.

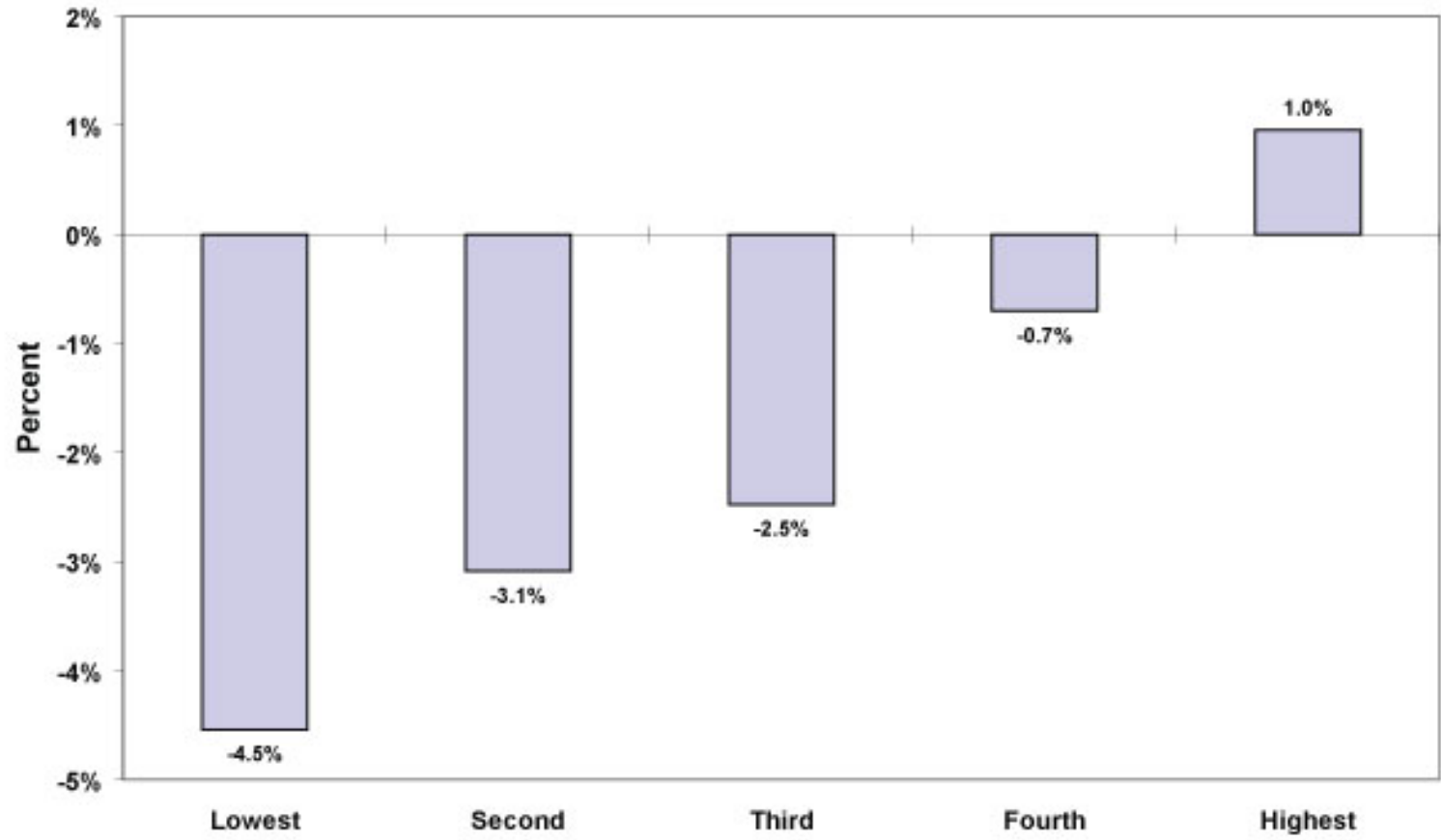
Median earnings and income



Source: U. S. Census Bureau, Income, Poverty, and Health Insurance in the United States: 2006.



FIGURE 2
Change in average real household income, by fifth, 2000-06



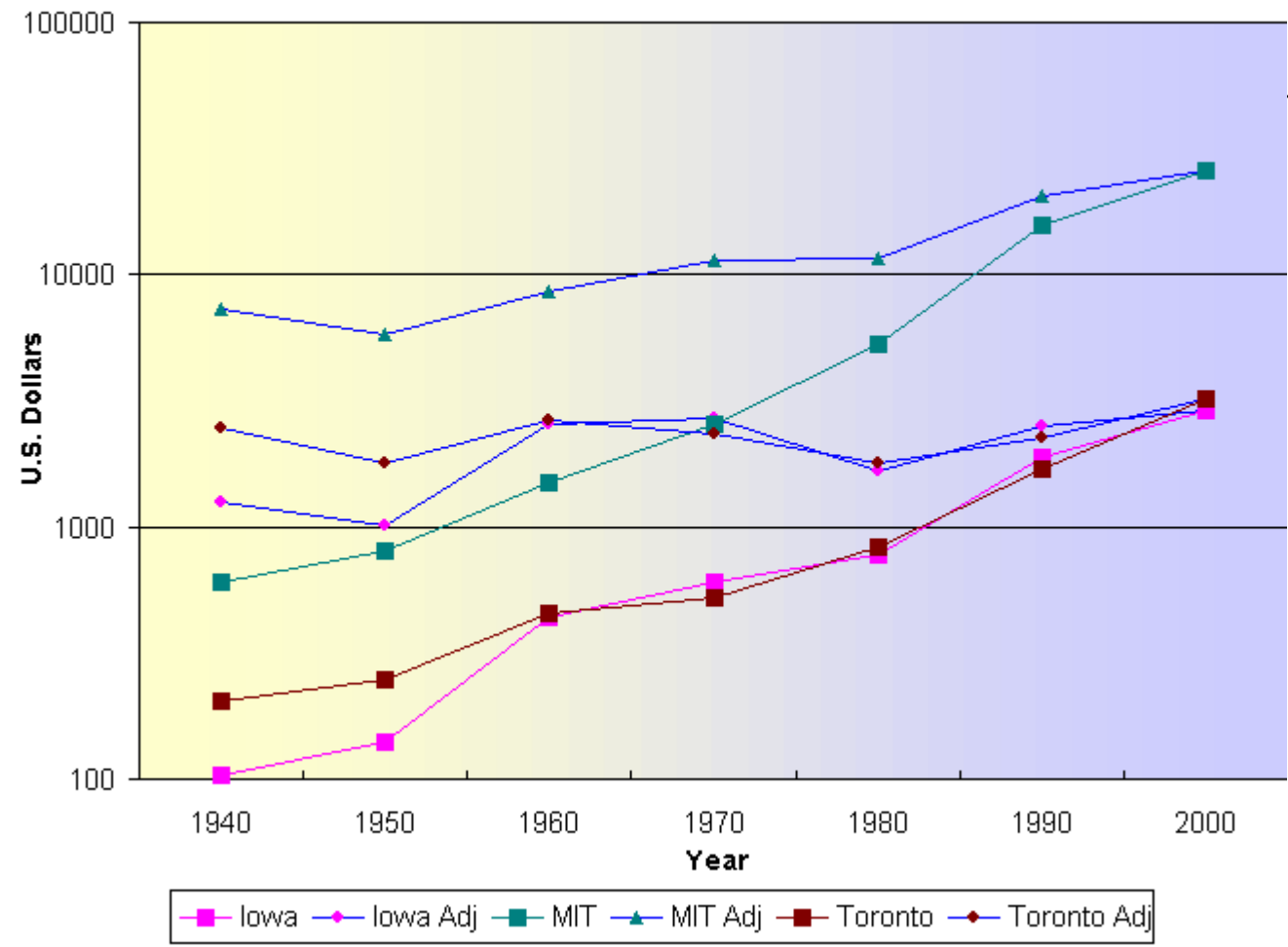
Source: Authors' analysis of U.S. Census Bureau data.

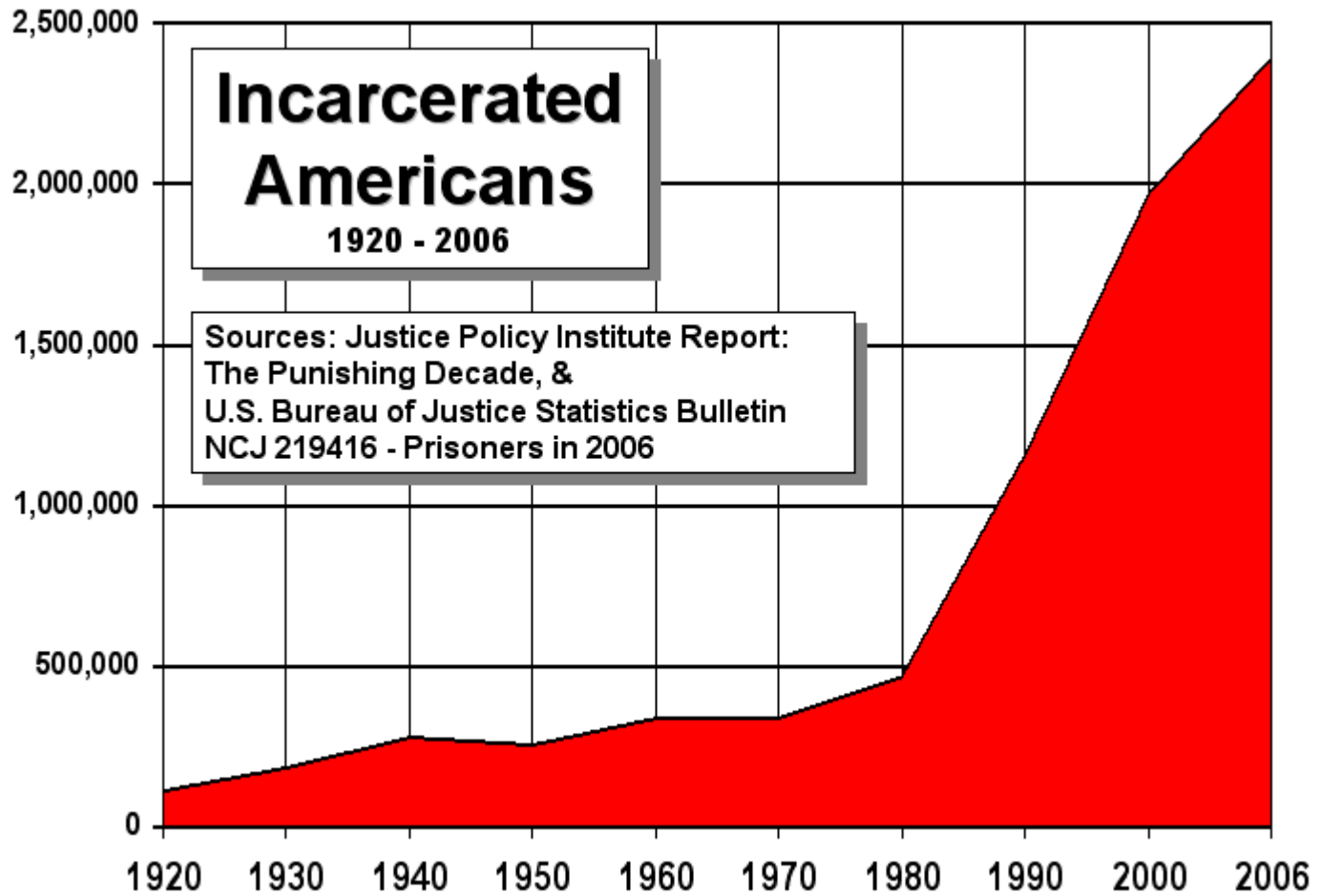


Inequality Dynamics in the West

- Increasing disparities in the West, especially US
- Tells you something about economic opportunities people have.
- For example college education.

College Tuitions, 1940-2000
 Unadjusted and Adjusted by U.S. B.L.S. C.P.I.







Is Globalization Working for the Middle Class in the US or in Richer Countries?

- What would free trade theory predict?
- What would a massive increase in foreign direct investment in “South” predict?
- What would rapid technological change, especially rising role of information and high services predict?
- What would tax cuts for rich and declining social support to poor predict?
- What would rapid immigration from Mexico and Central America predict?
- Do all these trends cut the same way?
- What trends cut against rising inequality?
- What kind of inequality cycles might be set loose by these dynamics?