The Persistent Problem: Inequality, Difference, and the Challenge of Development

Report of the Task Force on Difference, Inequality, and Developing Societies

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List of Abbreviations

BRICs: Large and rapidly growing developing countries including Brazil, Russia, India, and China.

EU: European Union

FDI: Foreign Direct Investment

FSF: Financial Stability Forum

G-4: A negotiating group of countries at the WTO including the US, EU, Brazil and China

G-6: A negotiating group of countries at the WTO including the G-4, Japan and Australia

G-7: Group of industrialized countries that meet to coordinate economic policy including: Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

GATS: The General Agreement on Trade in Services. It came into force in January 1995 as a result of the Uruguay Round negotiations at the GATT.

GATT: The General Agreement on Tariffs and Trade. It served as the forum for multilateral trade negotiations from 1947-1994.

Gini coefficient: A measure of inequality ranging from 0 to a perfectly egalitarian distribution to 1 for a perfectly unequal distribution (e.g. one person has all the income and everybody else has no income).

GDP: Gross Domestic Product. A measure of the size of a country's economy including consumption, gross investment, government spending, and current account balance.

GNI: Gross National Income. A measure of the size of a country's economy similar to Gross National Product (GNP) but which deducts indirect business taxes.

GNP: Gross National Product. A measure of the size of a country's economy including consumption, gross investment, government spending, and trade balance.

IMF: International Monetary Fund

LDCs: Least Developed Countries

MDGs: Millennium Development Goals

NGOs: Non-governmental organizations

OECD: Organisation for Economic Cooperation and Development

OTRI: Overall Trade Restrictiveness Index (OTRI)—a measure of the impact of tariffs and non-tariff barriers

PPP: Purchasing Power Parity

SOE: State-owned enterprise

TRIMs: Trade-related investment measures

TRIPS: Trade-related intellectual property rights

TVE: Town and village enterprise

WTO: World Trade Organization

Executive Summary

This report highlights the complex, multidimensional nature of inequality in the era of globalization. It documents that despite the impressive strides by nations like China and India, absolute inequality between the richest and poorest countries is greater than ever before in history. It demonstrates that the rise of China and India creates a new dimension to the persistent problem of inequality.

This report's central argument is that, under conditions of high inequality, elites—both international and within individual nations—may create socially suboptimal institutions and policies, and they may resist changes that promote development but threaten their dominance. The high levels of inequality documented here pose a persistent problem for the world. The problem manifests itself in three major ways:

1. International economic inequality enables powerful countries to shape the growth of global markets in ways that limit the benefits globalization might deliver to poorer countries. Similarly, capital flows are shaped in ways that disadvantage poorer nations while increasing the frequency of financial crises.
2. Economic inequality within developing countries often enables elites to establish policies and institutions yielding patterns of development that disproportionately favor their own interests. Domestic inequality also allows them to resist useful institutional changes.
3. Inequality of status within nations may produce hierarchies that empower elites to establish institutions that discriminate against, and marginalize, weaker groups, often provoking resistance that promotes violent conflict.

The problem of inequality will become more urgent as rapidly improving communications and transportation technologies increase people's awareness of it. We conclude there are no universal policy prescriptions. In an increasingly interdependent world, international institutions should be made more accountable to poor countries if they are to maintain their legitimacy and effectiveness . Democracy and capitalism offer the promise of alleviating the problems of inequality in developing countries, but they flourish best only if the peoples of those nations can develop economic and political institutions that reflect their own histories and cultures. In developed countries, policymakers and citizens must learn more about the distinctive conditions in each developing country; their ability to help remedy inequalities depends on listening to and engaging with social and political goals formulated by actors within those countries. Effective change will be interactive, not imposed.

The report first discusses measures of global inequality, and then examines how international inequality has shaped the world trade regime and financial markets in ways that diminish potential benefits to weaker nations. Next it explains how inequalities within developing countries often warp or diminish economic and infrastructure development, limiting benefits to the poor. Then the report looks at ways in which hierarchies of status produce discrimination, marginalization, and outbreaks of violent conflict within developing nations. Finally, it concludes with issues and institutions to re-examine in order to overcome persistent inequalities.

The report first points out disturbing global trends:

- Inequality between the United States and the world's poorest country, in terms of per capita income, rose from 38.5 to 1 in 1960 to 64 to 1 in 2005.
- In 2000, the wealthiest 1% percent of the world's people earned 415 times more than the earnings of the poorest 1%—up from 216 times in 1980, despite hurtling advances by a few nations.
- The global distribution of household wealth is even more unequal. In 2000, the top 10% of adults (over age 20) in the world owned 85% of such wealth, while the bottom half owned barely 1%.
- From the 1960s to 1990s, domestic income inequality rose in 65% of developing countries, declining in only 13%.
- A population-weighted measure of each nation's GDP comfortingly registers a small decline in inequality in the world from 1967 to 2000. In truth, the entire decline this measure records is due to China's economic miracle. Among the rest of the countries of the world, the trend is toward greater inequality.
- A recent World Bank study warns that only one of the eight Millennium Development Goals it set—that of halving poverty—will be achieved. The failure of wealthy nations to fulfill their commitments to fund foreign assistance will be a key factor if this occurs.

The world trade regime and capital flows show marked inequalities. The huge markets of the U.S. and the European Union give them disproportionate leverage. Being excluded from these markets can be devastating for most developing nations, while exclusion from developing markets means little to the U.S. or Europe. Wealthy countries have used their power to reap benefits at the expense of the poorest countries. At the same time, globalization has given rise to a new economic geography characterized by an upper tier of emerging markets whose economies are are more globally competitive. Will the growing power of countries like Brazil, Russia, India, and China (the "BRICs") benefit poorer countries or will it lead to new inequities? Specific findings include:

- Though developing countries account for less than one-third of imports by developed countries, they pay two-thirds of their tariffs. On average, the U.S. has imposed tariffs on imports from developing countries more than three times higher than those on imports from developed nations. For the poorest countries, U.S. tariffs are more than 10 times higher than tariffs for wealthy OECD nations.
- Agricultural subsidies of rich nations surpass the entire GDP of sub-Saharan Africa, and they amount to six times all foreign aid from rich nations. European cows, each with an implicit income of $2.50 a day from subsidies, have higher incomes than one-third of the world's people.
- Under the new regime for intellectual property rights that was created with the founding of the WTO, 96% of all patent revenues from developing countries go to firms from developed countries. These firms are far more likely to invest these funds to satisfy demand in markets like the United States where health care spending is $4,000 per person than in sub-Saharan Africa where health expenditures are just $20 per person.
- In the 1990s, just six Asian countries plus Mexico accounted for 63.5% of all manufacturing exports from the developing world, even though these countries contain less than 29% of the developing world's population.
- Just 11 nations—with 35% of the developing world's population—received 75% of all foreign direct investment in the 1990s. More recently, Asian nations' FDI share has grown from 23% in 1980 to 62% in 2005, while Latin America's share dropped from 67% to 25%.
- The BRICs—Brazil, Russia, India and China—now comprise more than one-fourth of world GDP and they are 4 of the world's 10 largest economies.
- Chinese investments in Africa are overwhelmingly in extractive industries. African exports to China have grown tenfold since 1995, but they are predominantly primary commodities.

The report next examines how domestic inequalities affect the politics of economic development, with sidebars on India and China. Very great inequalities diminish growth by making property rights less secure, reducing incentives for those at the bottom of the social hierarchy, and hindering efficient operation of labor, capital and product markets. In the past 30 years, the world has seen a dramatic spread of democratically elected governments, from 39 in 1974 to 122 in 2005. Yet domestic inequality has grown in most developing nations. Why? Some findings:

- Economic crises, often caused by greater exposure to international markets, cause greater inequality in developing nations. Poor nations are obliged to undertake austerity measures that reduce social benefits, while their wealthy disproportionately benefit from fiscal bailouts.

- Though many developing countries adopt the trappings of democracy, the quality of their democratic process has been poor. Of nearly 100 such countries considered in transition to democracy, less than 20 are clearly en route to becoming well-functioning democracies.
- Inequalities cumulate and create the most formidable challenges for those least capable of surmounting them. Lower caste women and female children in India's poorest state of Bihar are not only the least educated (female literacy rates in some districts are below 3%) but also the most malnourished.
- Economic liberalization has coincided with an increase in economic insecurity in many developing countries. One manifestation of this is that the share of workers in the informal economy—where employment is casual and work conditions are not subject to safety and health protections—has grown in Africa, Latin America and Asia. In Africa, 90% of new employment was in the informal sector during the 1980s and 1990s. In Latin America, the figure was 80%.

Next, the report focuses on how developing nations meet the formidable challenge of their social differences. Many nations must democratize while nation-building, and they have often inherited colonial-era boundaries fashioned more for administrators' convenience than demographic reality. The political demands of historically marginalized groups present democratic political systems with what has been called "the post-liberal challenge" to traditional assimilationist policies. The myth of "primordial" ethnic conflict has been exposed by recent studies, which find that peaceful relations are more characteristic of societies with greater ethnic diversity, providing the government is strong and intent on averting conflict rather than weak and controlled by leaders who stir up ethnic conflict for political advantage. That said, violence is a major obstacle to economic advancement:

- Low-income nations are 15 times likelier to have violent civil conflict than the richest countries.
- A significant positive relationship exists between income inequality and violent crime, even after controlling for other causes of crime. A recent World Bank survey of people in developing countries found that, in the minds of the poor, physical insecurity is a more serious problem than poverty.
- Truth and reconciliation commissions in several countries identified economic inequality and political exclusion as major factors promoting cycles of political violence and repression. Studies show that absolute poverty and inequality are correlated with high levels of repression.

- Violence in the world's 52 poorest nations reduced their average per capita growth rate by 2.4% each year.
- Participatory democracy facilitates building good institutions that contribute to higher quality economic growth – growth that is less volatile, better able to adjust to shocks, and which produces superior distributional outcomes.

In conclusion, the report suggests issues and institutions to examine in overcoming persistent inequalities at a time when global differences, increasingly visible to people throughout the world, call into question the legitimacy of international institutions. Among these issues and institutions are:

- The World Trade Organization process, TRIPs, tariffs and subsidies in wealthy countries.
- Excessively restrictive bilateral and regional trade agreements.
- Carefully liberalizing barriers to international labor markets.
- Capital account liberalization that takes account of distinctive conditions in LDCs, especially their poorly-developed regulatory institutions.
- Reforming market reforms in developing countries that promote elite interests without improving economic welfare and security for the whole society.
- The important role in achieving high quality economic growth in poor countries played by more participatory and accountable democratic institutions through their more equitable enforcement of the rule of law, political and property rights, civil liberties and their more equitable investments in human and physical capital.
- More sophisticated attention by developed nations to differences among LDC societies, cultures, and government structures in framing aid and investment policy.

Inequality, Difference, and the Challenge of Development

I. Introduction: Inequality in a World of Promise

Conditions for alleviating deprivation in the world are more favorable than ever before. Economic growth, producing a $55 trillion economy, has improved the lives of millions. Growth has accelerated since 2002. From 2003 to 2006, the average annual rate of real economic growth for developing countries was 6.2%, up from a 3.6% annual average for the previous five years. Poor countries like China, South Korea, and India have achieved spectacular rates of growth and substantially reduced poverty. Agreements on the eight U.N. Millennium Development Goals (MDGs) and debt relief mark an unprecedented consensus among wealthy countries to provide coordinated foreign assistance to the world's poorest countries. The spread of democracy throughout the world offers the basis for improved governance.

Inequality and difference pose relentless challenges in this world of promise. Consider the limited progress toward reaching the MDGs. A recent World Bank study warned that only one of the eight goals—that of halving poverty—will be achieved.[1] The failure of wealthy countries to fulfill their commitments to fund foreign assistance to poor countries will be an important factor if this disappointing outcome materializes. The inability of poor countries to meet commitments to their own poor will be another significant factor. In other words, our efforts to reach the MDGs may fall short because they do not account for the power asymmetries that result from economic and social inequalities.

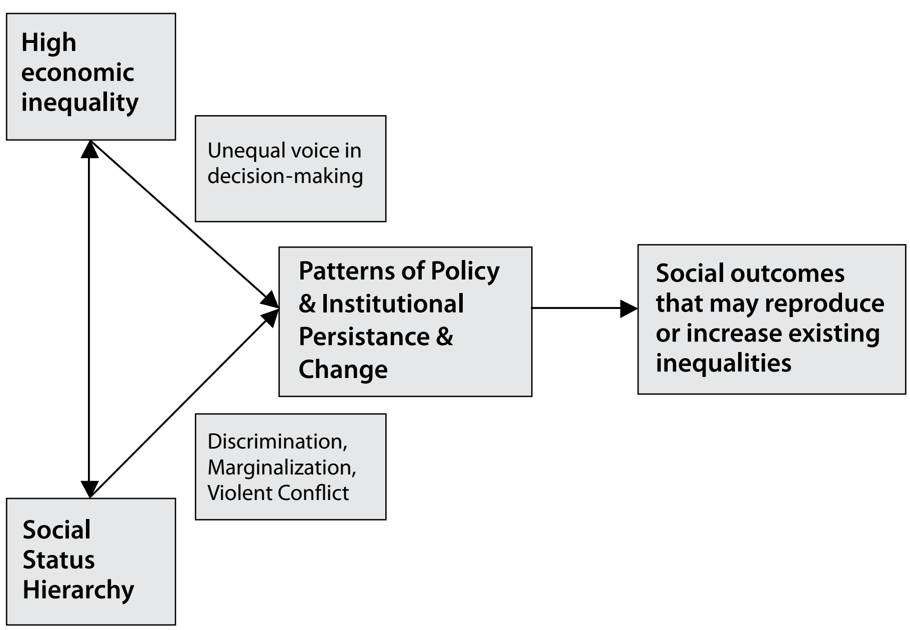
This report defines inequality in terms of persistent disparities in incomes of people, though inequalities in assets, health, and education are also important factors in shaping political and economic outcomes. **Difference refers to variation in social status and other distinguishing features of peoples and societies**—language, religion, ethnicity, gender, and cultural practices.

The report is concerned with the consequences of inequality for economic and political development. It demonstrates that high levels of economic or status inequality can enable powerful actors to produce institutions and policies that reduce the potential benefits to others while reinforcing their position of dominance. The argument here is not that inequality is always incompatible with economic growth. There are many cases where countries with high inequality have experienced high levels of economic growth. Nor does the report make a normative argument against all forms of inequality, though there are powerful normative arguments against high levels of inequality that institutionalize privilege. The central argument of this report is that under conditions of high inequality, elites may create socially suboptimal institutions and policies, and they may subsequently resist changes that promote development but threaten their dominance.

A proper understanding of inequality can take us beyond sterile "state vs. market" dichotomies where analysts only advocate for more of one or the other. Markets develop along different trajectories. An emphasis on inequality helps us to understand why markets may develop in ways that diminish their potential benefits for the poor.

Issues of difference play two important roles in our analysis. First, the increasing interdependence of people around the world makes it more important than ever for analysts and practitioners in developed countries to be alert to cultural differences and the distinctiveness of social processes in developing countries. Yet, global inequalities often enable powerful actors to impose world views, institutions, and policy prescriptions that slight important differences among societies. These impositions limit the progress of people in the less powerful countries around the world. Secondly, accommodating social difference presents a formidable challenge to the efforts of developing societies to achieve social equity, domestic peace, and economic security. When differences are ranked into hierarchies, they become associated with inequalities of power. All too often they result in policies and institutions that produce discrimination, marginalization, and in extreme cases, violent conflict.

Figure 1: Inequality, Social Hierarchy, and the Persistence of Inequality



When hierarchies of inequality and difference shape political and economic institutions, social outcomes may reproduce or increase existing inequalities. Figure 1 depicts what can happen in such scenarios. This report highlights that patterns of persistence and change can be found in a range of circumstances that have a profound impact on developing countries. Its three key findings are:

1. **International economic inequality has enabled powerful countries to shape the development of global markets in ways that limit the benefits globalization can deliver to developing countries**. This observation is not an argument against globalization, rather it is a finding that the particular trajectory globalization has followed has been shaped by political processes that favor wealthy countries while diminishing the potential benefits to poor countries. While some developing countries—for instance China and India—have achieved substantial benefits, the poorest countries have missed out the most. The challenge is to create an economic order that does not leave the weakest countries behind.
2. **Economic inequality within developing countries often enables elites to establish policies and institutions that produce patterns of development disproportionately favoring their interests**. It enables elites to resist changes that enhance development and social welfare but threaten their interests. This is an especially important problem in an era where globalization, rapidly changing circumstances, and technological innovation require frequent modification of policies and institutions to maintain economic dynamism.
3. **Status inequality can lead to policies and institutions that discriminate against weaker groups, marginalize them, and provoke resistance that gives rise to violent civil conflict**. This outcome is not only morally undesirable, but can also retard development and diminish social welfare.

The report begins by discussing measures of global inequality and documenting that it remains a serious problem. Next, the report examines how international inequality has enabled powerful countries to shape the development of global markets in ways that diminish potential benefits to weaker countries. It then investigates the circumstances in which economic inequalities within developing countries can diminish economic development and limit the benefits to the poor. Then, it assesses the ways in which status hierarchies result in discrimination, marginalization, and the outbreak of violent civil conflict. Finally, it concludes with some speculation about improving the quality of democracy as a means of alleviating the negative consequences of inequality for development and violent conflict.

II. What We Know About Global Inequalities

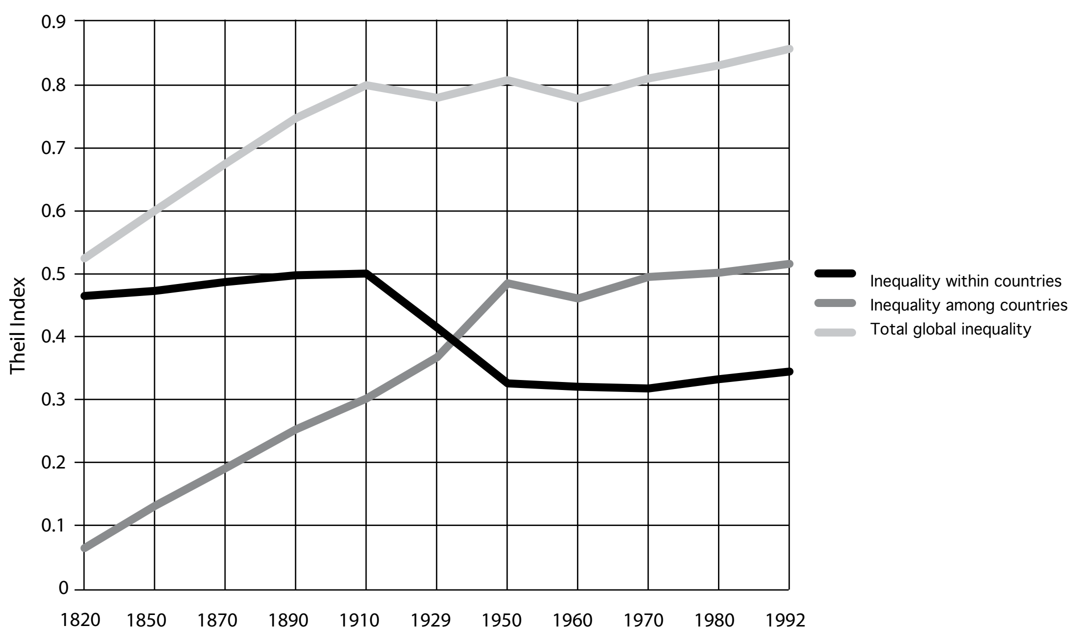
The assumption of social progress is fundamental to the modern era, and many contend that the era of expanding global markets should be particularly beneficial for developing countries. There have been remarkable improvements in health and education throughout the world since the early nineteenth century, and the share of the world's people living in poverty has declined. However, economic growth among countries has been more uneven than what is widely recognized, and global income inequality has been more persistent at very high levels. This section examines two vital issues:

First, it documents that income inequalities among the peoples and countries of the world remain at historically high levels. It also demonstrates that many of the positive developments in regard to global inequality in recent years are in large measure a consequence of the remarkable economic progress of two immense countries, China and India. The rise of these giants introduces a second vital but underappreciated issue: the extent to which economic progress among developing countries is uneven. While China and India—and East Asia more generally—have achieved historic progress, economic development in sub-Saharan Africa, Latin America, and the transitional economies of Eastern Europe and Central Asia has been disappointing.

...income inequalities among the peoples and countries of the world remain at historically high levels...

Global inequality—a direct measure of interpersonal income disparities throughout the world—continues at historically elevated levels. From 1820 to 1992, the Theil index, a decomposable measure of inequality, increased from 0.522 to 0.855 (see Figure 2).[2] The most important factor driving this increase is inequality between countries. Meanwhile, inequality within countries rose slightly from 1820 to 1910. It declined in the following 60 years with the most substantial declines occurring during the period of the Great Depression and World War II. It has gradually increased since 1970.

Figure 2: Historical Trends in Global Inequality, 1820-1992



Source: Francis Bourguignon and Christian Morrisson, "Inequality among World Citizens: 1820-1992," *The American Economic Review* 92:4 (September 2002), 734.

Different measures of inequality in the world highlight different developments. When we measure inequality as differences in the per capita Gross Domestic Product (GDP) of each of the world's countries and treat each country as an equal unit, we find that inequality in the world has steadily increased since the early 1980s from a Gini coefficient of 0.473 in 1982 to 0.545 in 2000 (see Figure 3). When we take each country's per capita GDP and weight it by the country's population, there is a different trend: inequality in the world has steadily declined from a Gini coefficient of 0.559 in 1967 to 0.502 in 2000.

These different measures of inequality have different uses. The first measure demonstrates the consequences of different countries' economic policies. The second measure weights each country's per capita GDP by population in order to provide a more accurate description of the overall impact of recent trends on people around the world. When we look more closely at this population-weighted measure of inequality, it reveals a very important development. All of the decline in inequality recorded by this measure is accounted for by China's economic miracle. The trend among all the other countries of the world, not including China, is for increasing inequality.

Because per capita GDP is a national average, measuring inequality by comparing trends in population-weighted GDP per capita among the world's countries understates the amount of inequality in the world because it does not include inequality within countries. Virtually all studies of global inequality among individuals since 1980 find that inequality ranges between Gini coefficients of 0.61 and 0.68.[3] This is a staggering level of inequality. If the world were a country, it would rank near the very bottom of a list of the most unequal countries.

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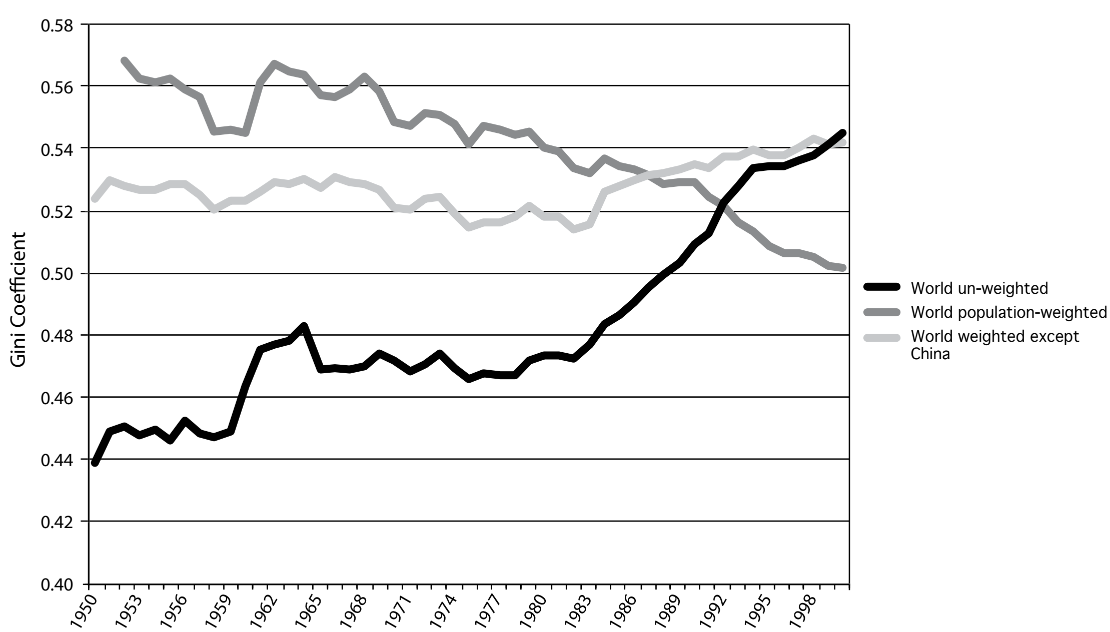
Figure 3: International Inequality Measured by Gini Coefficients, 1950-2000

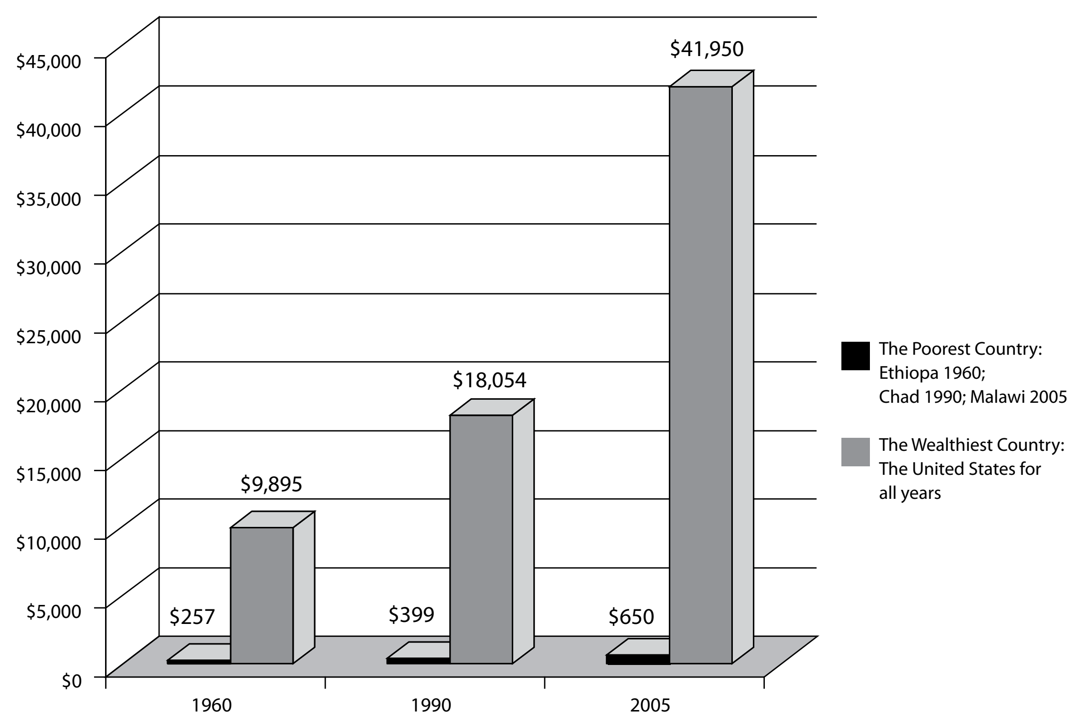


Source: Branko Milanovic Powerpoint presentation at the Ralph Miliband Memorial Lecture at the London School of Economics, February 2005, available at http://web.worldbank.org.

Income Polarization. In the past 40 years, there has been a marked polarization of income distribution in the world. Inequality between the United States—the world's wealthiest country—and the world's poorest country in terms of Gross National Product (GNP) per capita calculated in purchasing power parity dollars has risen from an already large 38.5:1 in 1960 to more than 64:1 in 2005 (see Figure 4).[4] Moreover, economic growth during the 1990s has benefited the wealthy disproportionately. Consumption by the richest 20%, which includes 95% of the people in developed countries, accounted for two-thirds of the world's total while the bottom 50% got only 9.5% of increased consumption.[5] Finally, there are wide disparities at the extremes of global income distribution among individuals that have reached historically unprecedented levels. In 1980, the richest 1% of the world population earned 216 times the poorest 1%. By 2000, this enormous gap had ballooned to 415 times the earnings of the poorest 1%.[6]

In the past 40 years, there has been a marked polarization of income distribution in the world.

Figure 4: International Income Polarization in PPP$, 1960-2005



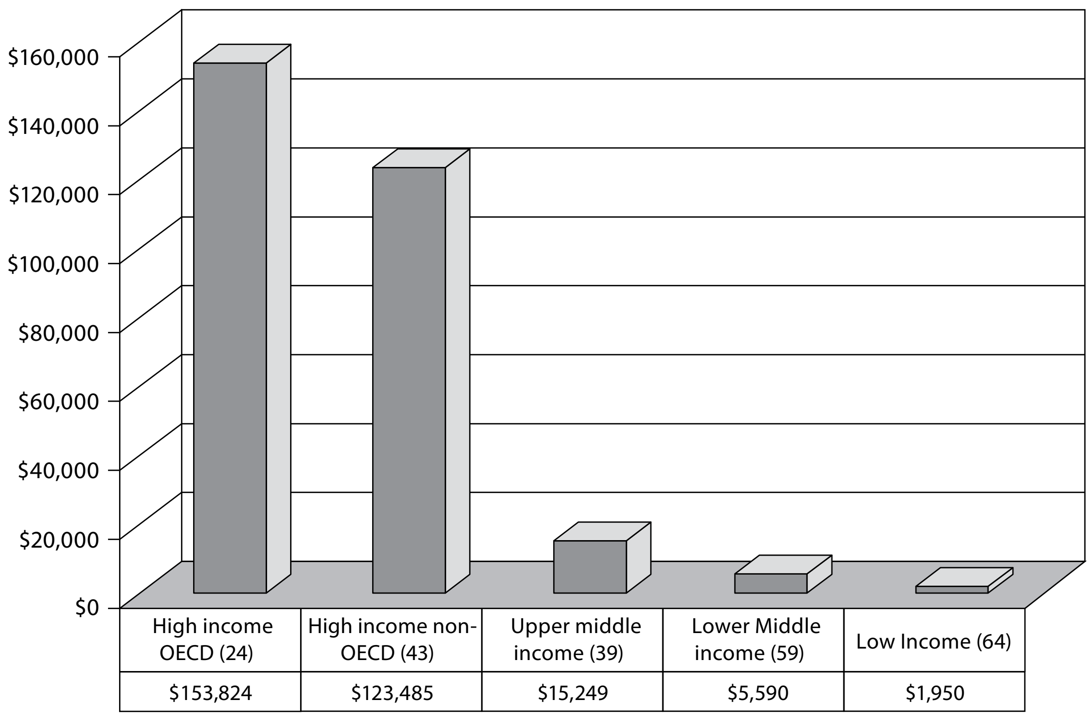
Source: Lant Pritchett, "Divergence, Big Time," The Journal of Economic Perspectives 11:3 (Summer 1997), 11; and World Bank, *World Development Report 2006* (Washington, DC: World Bank, 2005), 288-289.

Household Wealth. The global distribution of household wealth—defined in terms of net worth of adults over age 20 and calculated in terms of official exchange rates—is even more unequal. In 2000, its Gini coefficient was 0.892.[7] The top 10% of adults in the world owned 85% of global household wealth while the bottom half owned barely

1%. The average net worth per adult is $153,874 in 24 high income OECD countries (see Figure 5). This is 79 times greater than the $1,950 average for 64 low income countries.[8]

In 2000 … the top 10% of adults in the world owned 85% of global household wealth while the bottom half owned barely 1%.

Figure 5: Net Wealth Per Adult in 2000 (At Official Exchange Rate Valuations, in US Dollars)



Source: James B. Davies, Susanne Sandstrom, Anthony Shorrocks, and Edward N. Wolff, "The World Distribution of Household Wealth," paper presented at the UN University-World Institute for Development Research, December 5, 2006, Table 9. Available at http://www.iariw.org/papers/2006/davies.pdf accessed on June 11, 2007. All figures are in year 2000 US$.

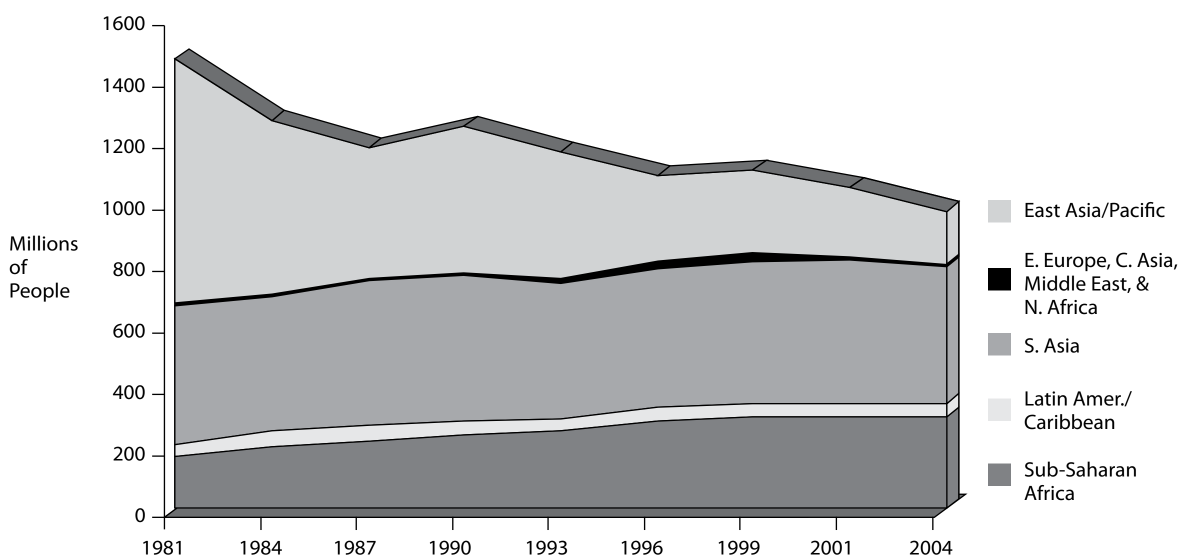
New Inequalities Among Developing Countries. Creating the category "developing countries" was always a problematic exercise in concept stretching. If these societies, with their remarkable variations in social organization and history, ever had anything in common, it was a negative identity delimited in reference to the developed and communist countries. The disparate economic conditions characterizing wealthy and poorer economies created a perspective that made it sensible to group these diverse societies together in a single category. However, the concept obscures the differential dynamism among developing countries in recent years.

Consider this: in terms of 2005, Brazil's per capita Gross National Income, (measured by purchasing power parity dollars, or PPP) is more than 12 times greater than that of Malawi—the world's poorest country—but it is only five times less than that of the United States. China's per capita income is more than 10 times greater than Malawi's but only 6.4 times less than the United States.[9] Asia's economic success underpins the dynamics of many important changes. There have always been such disparities among countries classified as developing, but Asia's accelerated economic growth may generate new inequalities among developing countries. From 1997–2006, East Asia grew at an average annual rate of 6.3%, driven in considerable measure by China's 9.1% growth rate. South Asia grew at 5.5%, thanks in part to India's 6.2% rate of growth. In contrast, Africa and West Asia's growth rates were an identical 4.0%. The transition economies grew at an annual rate of 4.9%. Latin America and the Caribbean were the poorest performing regions with an average annual growth rate of just 2.9%.[10]

Asia's economic dynamism is also apparent in the diverse regional trends in poverty alleviation (see Figure 6). The total number of people living in absolute poverty —those with daily incomes less than one dollar—declined by 501 million from 1,470 million in 1980 to 969 million in 2004. However, without the 627 million drop in East Asia (China alone had a 506 million decline), the number of people living in poverty in the rest of the developing world increased by 581 million. The largest proportional increases occurred in Eastern Europe, Central Asia, and sub-Saharan Africa. In the transitional economies of Eastern Europe and Central Asia, the number of people living in absolute poverty grew by more than five times from 3.1 million to 17 million. In sub-Saharan Africa the number of people in absolute poverty almost doubled from 164 million to 313 million. People living in poverty in Latin America and the Caribbean grew by 40% from 35.6 million to 49.8 million.[11]

Without the 627 million drop in East Asia (China alone had a 506 million decline), the number of people living in poverty in the rest of the developing world increased by 581 million.

Figure 6: Number of People in Absolute Poverty ($1/day) by Region, 1981-2004

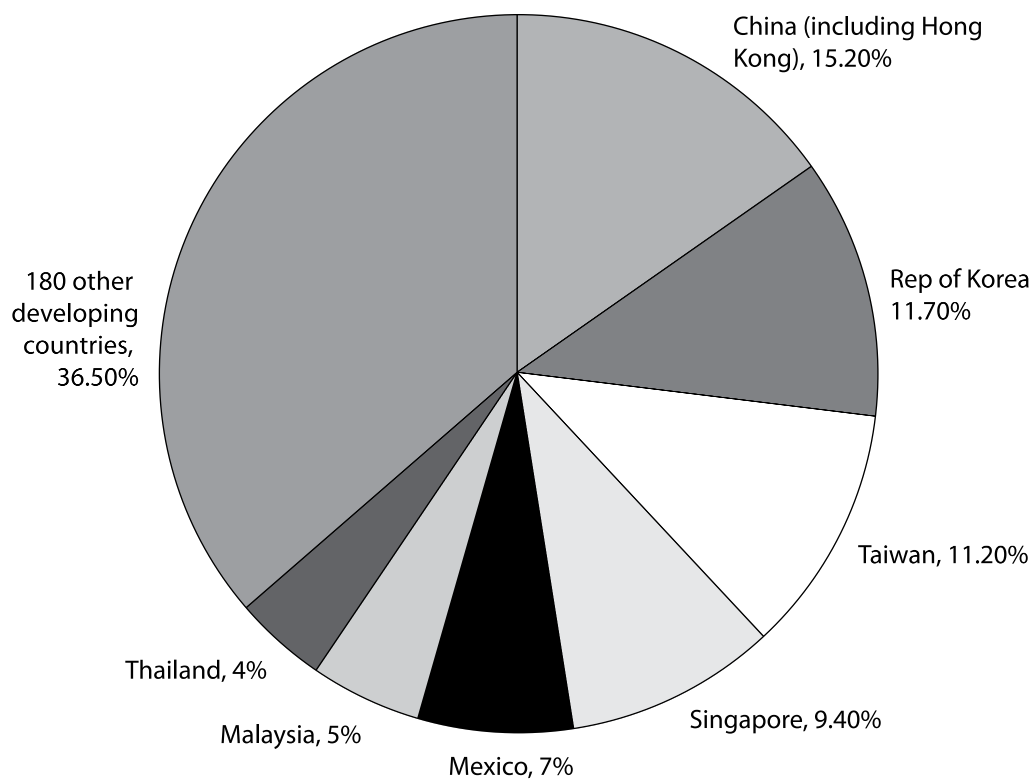


Source: Francisco H.G. Ferreira and Martin Ravallion, "Global Poverty and Inequality," *Policy Research Working Paper 4623* (Washington, D.C.: The World Bank), 2008, 41.

There are many explanations for the regional differences in economic development. An important factor is that the benefits of global trade and finance have been concentrated in a limited number of countries. Success in manufacturing exports has varied dramatically. During the 1990s, just six Asian countries and Mexico accounted for 63.5% of all manufacturing exports from the developing world even though those countries contained less than 29% of the people (see Figure 7). Many of the least developed countries experienced a decline in their share of world markets despite having implemented measures to liberalize trade.[12]

Capital flows to developing countries were also highly concentrated. From 1990–1999, just 11 countries—with 35% of the developing country population—received 75% of all Foreign Direct Investment (FDI) to developing countries while the other 176 developing countries received only 25%. In 2005, 10 countries accounted for 65% of FDI. Asian countries received the lion's share of FDI in recent years, and their share of total FDI stock in developing countries has grown from 23% in 1980 to 62% in 2005. At the same time, Latin America's share dropped from 67% to 25%.[13] Portfolio equity flows were also highly concentrated. Of the estimated $94 billion in portfolio

Figure 7: Distribution of Manufacturing Exports from Developing Countries, 1990-1999



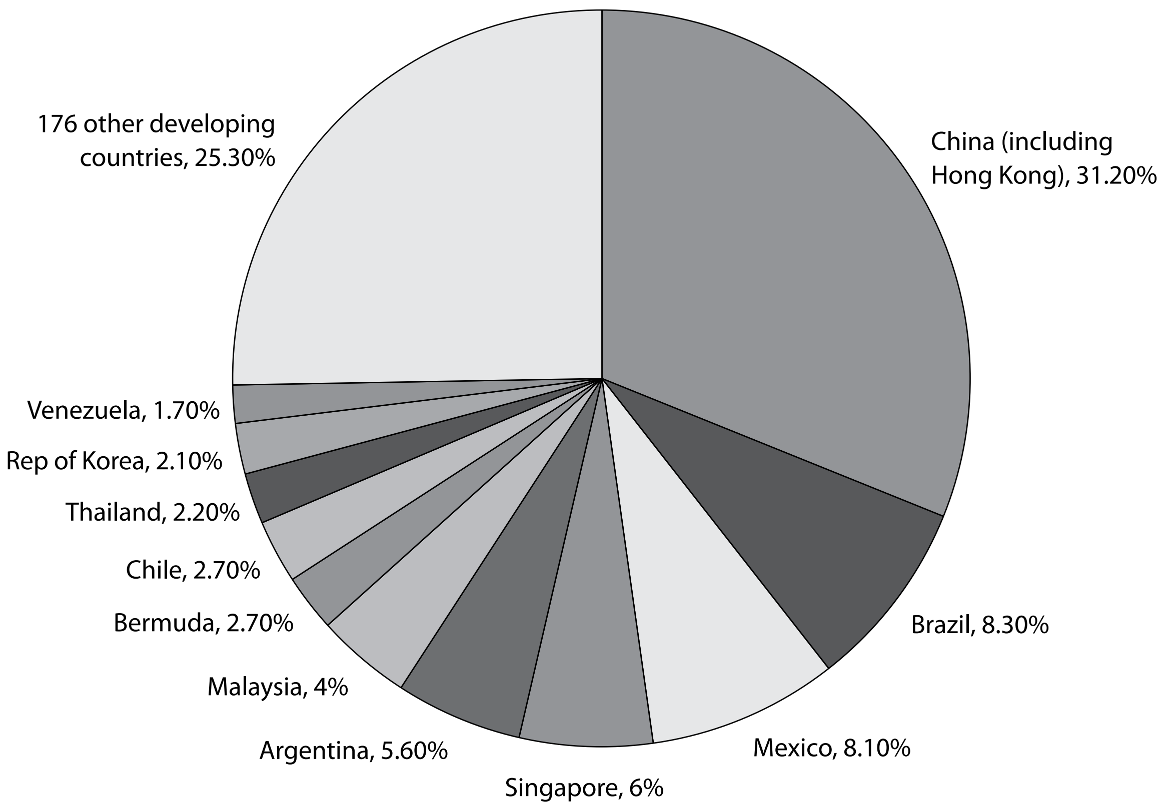
Source: World Commission on the Social Dimension of Globalization, *A Fair Globalization: Creating Opportunities for All* (Geneva: International Labour Organization, 2004), 26.

Of the estimated $94 billion in portfolio equity flows to developing countries in 2005, the top five countries received more than 74%.

equity flows to developing countries in 2005, the top five countries received more than 74%. Asia received 70% of these flows. The top 10 countries issued 70% of developing country bonds, and 70% of all bank lending to developing countries was received by only 10 countries. These categories of capital flows were not favored by Asian countries.[14]

Despite the financial crisis of 1997–1998, East Asian capital markets have achieved a much higher level of development than those in other regions. In 2004, stock market capitalization for East Asian countries was a striking 146% of GDP—exceeding the 94% ratio for the G7 countries—while stock market capitalization to GDP for Latin America was only 43%. The current value traded on East Asia's stock exchanges was 105% of GDP in 2004 while the figure for Latin America was just 6.1%. East Asian debt markets are also more developed. The share of GDP accounted for by private sector domestic bonds was 36.3% for East Asia compared to 10.7% for Latin America. Financial sector credit to

Figure 8: Distribution of Foreign Direct Investment Inflows to Developing Countries,1990-1999



Source: World Commission on the Social Dimension of Globalization, *A Fair Globalization: Creating Opportunities for All* (Geneva: International Labour Organization, 2004), 29.

the private sector as a share of GDP in 2004 was 75.7% for East Asia and only 10.7% for Latin America.[15]

The trajectory of globalization is creating a new economic geography characterized by increasing economic linkages among developing countries and the development of an upper tier of emerging markets whose economies are more globally competitive than other developing countries. Merchandise trade among developing countries has grown twice as fast as world trade over the past decade.[16] FDI from one developing country to another has grown rapidly in recent years. Excluding investment from offshore financial centers, "South-South" FDI grew from just $2 billion in 1985 to $60 billion in 2004.[17] In 2005, of the 77,000 transnational corporations in the world, more than 20,000 were from developing countries.[18] Many of them have a substantial share of their operations in other developing countries.

Amid the disparate success and growing inequality among developing countries, an upper tier has emerged that exercises growing influence in the development of global markets. The BRICs—Brazil, Russia, India, and China—now account for more than one-fourth of the world's GDP in purchasing power parity terms, up from 17% in 1990. They comprise four of the 10 largest economies in the world.[19] Together, they contributed more than 35% of world growth from 2000–2005. Their economies are increasingly integrated with global markets. Total trade in goods and services amounted to two-thirds of China's GDP, 56% of Russia's, 40% of India's, and 32% of Brazil's, compared to a 42% average for OECD countries.[20] According to one prediction, if the four BRICs sustain policies supportive of growth, they will comprise four of the world's six largest economies by 2050.[21]

The BRICs—Brazil, Russia, India, and China—now comprise more than one-fourth of the world's GDP... They comprise four of the 10 largest economies in the world.

The rise of the BRICs—along with other upper tier emerging markets such as the Republic of Korea, Taiwan, South Africa, etc.—has established new inequalities that pose challenges for the poorest developing countries. Labor-intensive industry from Asia is a serious threat to light industry in Africa and Latin America. While Asian countries have a strong interest in reducing tariffs on light industry, such measures would undercut efforts to promote labor-intensive industry in Africa and Latin America. They might even undermine efforts to promote industrial development through preferential agreements, such as the EU's Everything But Arms Initiative and the United States' African Growth and Opportunities Act.[22] On the other hand, Brazil has the third largest agro-industry sector in the world. Should tariffs on agricultural goods be sufficiently lowered, Brazil's competitive advantage would greatly diminish opportunities for agricultural exports from poor countries even where the EU has given them tariff-free access.[23]

The rise of the BRICs provides opportunities as well as challenges for poorer developing countries. Their rapid growth offers expanding markets, and their increasing FDI and foreign assistance may accelerate the development of poor countries. Conceivably, the BRICs might be more sympathetic to the plight of the poorest countries than advanced industrial countries. Their growing power might shape globalization in ways that help to alleviate some of the problems of the poorer developing countries. However, the economic relations emerging between Asia and Africa have elements—Asia exports industrial goods and higher value-added services while Africa exports raw materials—that reinforce asymmetries. It would be a mistake to simply equate the interests of the upper tier of emerging markets with the interests of poorer developing countries. Whether the emergence of the BRICs leads to a more benign or challenging environment for the development of the poorest developing countries remains to be seen. What is clear is that the rise of the BRICS will be an important factor shaping the development of global markets for years to come.

Accelerated Growth but the Persistent Challenge. In recent years, economic growth in developing countries has accelerated. An especially hopeful sign is that in the world's poorest countries grew at a 7.4% annual rate from 2003 to 2006. Improved terms of trade for primary commodities since 2002 is a major factor contributing to accelerating growth in developing countries. From 2002 through to October 2006, the combined index for commodity prices rose by 95%. Minerals and metals along with crude petroleum led the way with increases of 246% and 170% respectively.[24] Another key factor that contributed to the improved performance of the poorest countries was that wealthy countries agreed to provide them with a significant amount of debt relief while increasing foreign aid and taking measures to improve aid effectiveness. The governance of many developing countries has improved, and the macroeconomic policy of many countries is managed with greater expertise.

Can poor countries take advantage of this favorable environment to sustain this accelerated growth? To do so, they will need to diversify their economies so that they are less reliant on primary commodity exports. Inequalities at both the international and domestic levels make this particularly challenging. At the international level, biases against the poorest countries in terms of manufacturers and agricultural goods are impediments into more diversified growth. Poor countries need policy space to devise developmental strategies that are appropriate to their distinctive circumstances, but agreements at the WTO on trade-related property rights and trade-related investment measures, among others, limit their policy space. In order to insulate themselves from global financial turbulence, developing countries have accumulated more than $3 trillion in foreign reserves. They have experienced negative net financial transfers in every year of the last decade with the outflows from transition and developing countries estimated to total more than $600 billion in 2006.[25] Finally, the success of China, India, and other Asian low-wage economies makes the traditional route of diversifying through labor-intensive industry much more challenging for other developing areas since China and India's wages are lower and their labor more productive than those in most other poor countries. At the domestic level, diversified development needs extensive infrastructural development, but political inequalities can limit investment and cause neglect of areas without political clout. Investment in human capital is key to promoting economic development, but inequalities often result in the relative neglect of primary and secondary education for non-elites. Adequate social safety nets facilitate the otherwise

Africa: The Challenges of Global and Domestic Inequality

Africa includes many of the world's poorest countries and neediest people, and the acceleration of its economic growth from an annual average of 3.3% from 1997–2002 to 5.1% from 2003–2006 promises to improve the conditions of many.[26] Better macroeconomic management, debt relief, and increased foreign assistance have played an important role in the region's higher growth rates. The most important factor has been an increased demand for key African export commodities, especially crude oil, metals, and minerals.

The higher rates of growth remain inadequate to meet the U.N. Millennium Development Goals for the region, and Africa must overcome a number of obstacles to achieve the level of development necessary to meet these goals. Domestic investment rates in sub-Saharan Africa are below the levels in other developing regions. From 2000–2004, domestic investment as a share of GDP was only 18% in sub-Saharan Africa compared to 31% in East Asia and the Pacific.[27] Inadequate investment has left the region with a poor infrastructure. Sub-Saharan Africa has a road density of less than 7 km/100 miles, compared to 18 km for Asia and 12 km for Latin America. Electric power consumption is only 457 kilowatts per person in sub-Saharan Africa compared to 891 in East Asia and the Pacific and 1,506 in Latin America and the Caribbean. The region has only 15 telephone mainlines per 1,000 people compared to 131 in East Asia and the Pacific and 169 in Latin America and the Caribbean. Public health services in many African countries is woefully inadequate at a time when an HIV/AIDs pandemic is devastating their workforce. The recent surge in economic growth has generated few new jobs because much of the growth is in capital-intensive oil production and mining while labor-intensive industries have not fared well against international competition.[28]

China's presence as a trading partner, investor, and donor of foreign assistance has grown rapidly in recent years. African exports to China have increased more than 10-fold since 1995. Its exports are overwhelmingly primary commodities while it imports largely labor-intensive manufactures. China contributes funds for large infrastructural projects designed to increase the export of raw materials. African industry is unable to compete with cheap Chinese manufactures whose success has restricted Africa's industrial job creation. The developmental impact of Chinese firms in Africa is also limited by the firms' preference for Chinese managers. The Economic Commission for Africa cites concerns that Chinese firms do not protect workers' rights or the environment.[29]

painful structural adjustments that are part of global integration, but inequalities limit their funding and tend to concentrate their benefits to the neglect of the neediest sectors.

III. Inequality, Difference, and the Politics of Global Markets

Political scientists studying the development of markets for global trade and finance have generated important insights about the evolution of international economic governance since World War II. The politics of international markets has created an institutional framework that favors wealthy countries, often to the disadvantage of poor ones. This section discusses the evolution of global markets for trade and finance. Each sub-section begins by illuminating how economic and political inequalities have shaped the evolution of markets. They then investigate how global markets have operated to reinforce global inequalities.

Global Trade in an Unequal World. The most important wellspring of power for wealthy countries is the immense size of their markets.[30] Simply put, being excluded from the giant markets of the United States and European Union can be devastating for most developing countries, while being excluded from the market of most developing countries is of little consequence for the United States and other wealthy countries. This reality provides the United States and Europe with enormous leverage in trade negotiations. It also creates disparities in the enforcement of WTO rulings. When the WTO decides a country has broken its rules, it authorizes the plaintiff country to levy sanctions that reduce access to its market. When the U.S. takes such measures, it can be disastrous for developing countries. When Antigua won a ruling against the U.S., it could not enforce it because placing tariffs on American goods would merely raise prices for Antiguans while having virtually no impact on the U.S.

Institutions and Power Disparities. Wealthy countries have repeatedly used their power to ensure that the institutional forums where the rules of international trade are determined were favorable to their interests. When poor countries put up too much resistance, wealthy countries have shifted negotiations to new institutional arenas. In 1948, the United States Congress rejected the charter creating the International Trade Organization as a forum for negotiating the post-war trade regime and obliged the world to utilize the General Agreement on Tariffs and Trade (GATT) to promote international trade even though the GATT had been ratified by only 23 signatories, all wealthy countries. Similarly, after efforts to establish new provisions for trade-related intellectual property rights (TRIPs), trade-related investment measures (TRIMs), and the General Agreement on Trade in Services (GATS) were resisted by developing countries during the Uruguay Round of the GATT, the U.S. and other wealthy countries created the World Trade Organization as a "single undertaking" that defined TRIPs, TRIMs, and the GATS as "integral parts" that were binding on all members. As a result, developing countries were obliged to choose between remaining outside the WTO and therefore having restricted access to the world's largest markets, or joining the WTO and accepting provisions for TRIPs, TRIMs, and the GATs.

The WTO Process

Wealthy countries shape the WTO's multilateral negotiating process to enhance their ability to achieve their objectives, though their efforts have been affected by the changing balance of power.[31] Initial negotiations at the WTO are open to proposals from all parties. However, the proposals that reach the final round overwhelmingly come from Washington or Brussels. In the United States, the government has institutionalized a channel for the participation of large corporations, and the private sector in the United States plays a crucial role in developing many American negotiating initiatives. This is best illustrated by the central role of large American pharmaceutical companies in developing provisions for TRIPs.[32]

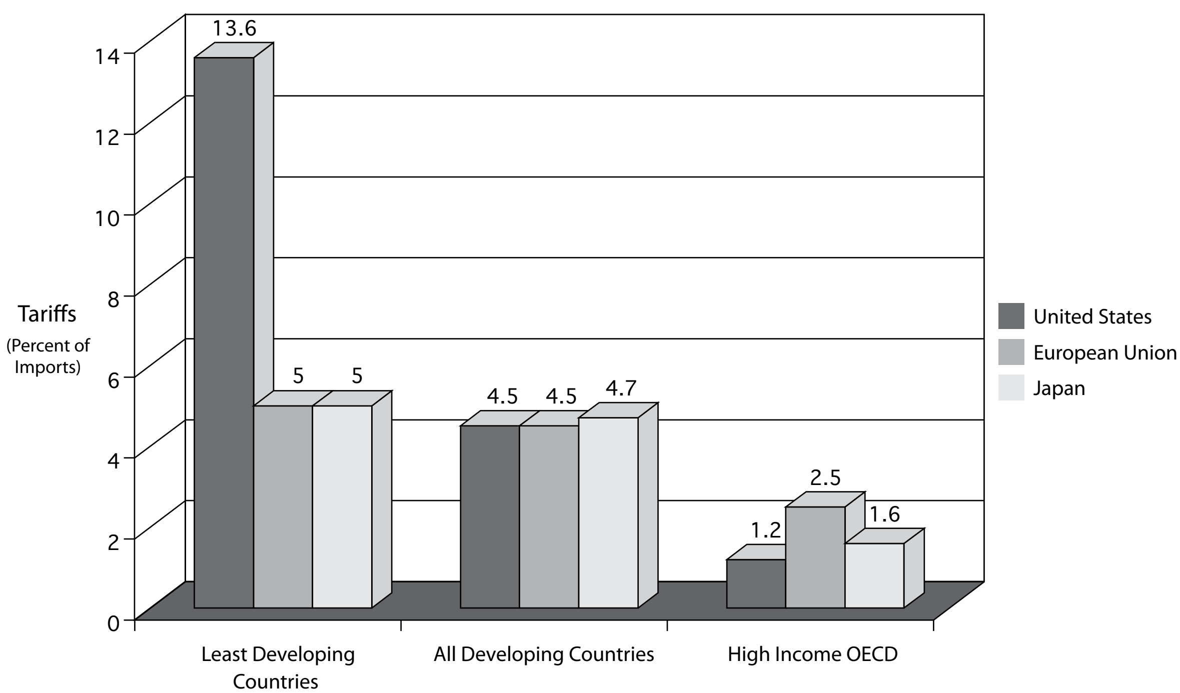
Delegates play a much more active role in a "member-driven organization" like the WTO than at other "staff-driven" international institutions.[33] During negotiations, wealthy countries are represented by teams of experienced civil servants, supported by expert private sector consultants, while only a handful of inexperienced civil servants with limited expertise represent developing countries. According to knowledgeable observers, "the increasing complexity and breadth of the negotiations [at the WTO]—many of which take place simultaneously, especially during the crucial final days of negotiations—make it all but impossible for the majority of developing countries to attend all the sessions, let alone negotiate on a fully informed and capable basis."[34] In serving to mediate negotiations, the WTO secretariat is more representative of the interests of developed countries, according to Richard Steinberg, because it works under the "shadow of power" cast by wealthy countries and because it is overwhelmingly staffed by experts from these countries.[35] During the sixty-year history of the GATT and WTO, all but one Director-General have been from developed countries.

In the wake of the breakdown of negotiations in Seattle in 1999, WTO members agreed at the ministerial meetings in Doha to launch a "developmental" round of negotiations that would address issues of concern to poor countries. Doha round negotiations reflect the difficulties wealthy countries encounter as the balance of power at the WTO begins to change.[36] Progress has been impeded by controversies over whether the wealthy countries were making adequate concessions in agriculture and whether they were demanding too many concessions from poor countries in the area of non-agricultural market access. In 2003, developing countries effectively ended negotiations at the Cancun ministerial meetings in by walking out of the meetings. Subsequent efforts to advance the Doha round were based on negotiations among the G-4 (the United States, European Union, Brazil, and India) or the G-6 (the G-4 plus Japan and Australia) However, in June 2007, negotiations among G-4 countries in Potsdam, Germany broke down over differences between the US and EU on the one side and Brazil and India on the other.

The impact of power disparities on the development of international markets is clear in the bias of tariffs in developed countries against imports from developing countries. Overall, though developing countries account for less than one-third of developed country imports, they pay two-thirds of the tariffs collected by developed countries (see Figure 9).[37] On average, the United States has imposed tariffs on imports from developing countries that are more than three times higher than its tariffs on imports from developed countries. American tariffs for the poorest of the developing countries were more than 10 times higher than tariffs for wealthy OECD countries. In addition, tariff escalation impedes poor countries from diversifying into more value-added exports. For instance, effective levels of protection from leather to footwear doubles in the United States and Canada. The European Union's tariff on cocoa beans is 1% but its tariff on chocolate is 30%.[38] In 2005, wealthy countries agreed to implement measures to reduce tariff discrimination against the poorest countries by agreeing to eliminate duties and quotas on most imports from LDCs.

On average, the United States has imposed tariffs on imports from developing countries that are more than three times higher than its tariffs on imports from developed countries. American tariffs for the poorest of the developing countries were more than 10 times higher than tariffs for wealthy OECD countries.

Figure 9: Developed Country Tariffs Against Imports By Region, 2000



Source: United Nations Development Programme, *Human Development Report 2005* (New York: UNDP, 2005), 127

While rich countries campaign for the reduction of tariffs on industrial production, they continue to protect their agricultural sector. The European Union's Overall Trade Restrictiveness Index (OTRI)—a measure of the impact of tariffs and non-tariff barriers—for agriculture is more than 25%. This stands in contrast to its OTRI for manufacturing that is less than 4%. Similarly, the U.S.'s OTRI for agriculture is 12%, while for industry it is only 4%.[39]

At the same time that developed countries exclude poor countries from their agricultural markets, they provide their farmers with immense subsidies and dump subsidized agricultural commodities on global markets. Total OECD agricultural subsidies were $280 billion in 2004.[40] These subsidies accounted for 30% of producer incomes, the same figure as in 1995—the date when the industrial countries had pledged in the Uruguay Round to begin phasing them out.[41] Agricultural subsidies of rich countries exceed the entire GDP of sub-Saharan Africa. They are approximately six times more than all foreign aid from rich countries.[42] One consequence of this largesse is that European cows—each with an implicit income of $2.50 a day from government subsidies—have higher incomes than one-third of the world's people.[43] The costs of these policies, however, are also borne by people in wealthy countries. Agricultural protection costs the average consumer in developed countries about $1,000 per year through increased prices and taxes.[44] All but a small fraction of the benefits go to large farmers. In the United States, 87% of agricultural subsidies go to the largest 20% of farmers.[45]

Agricultural subsidies of rich countries exceed the entire GDP of sub-Saharan Africa. They are approximately six times more than all foreign aid from rich countries.

European cows—each with an implicit income of $2.50 a day from government subsidies—have higher incomes than one-third of the world's people.

Non-tariff barriers increase the protection of agriculture by wealthy countries. The problem is not just that developing countries are excluded from the markets of developed countries. Developed countries also dump subsidized agricultural commodities on global markets. For instance, the U.S. and E.U. sell half of the world's wheat exports at prices 46% and 34% below the costs of production, respectively. Subsidies make it possible for the E.U. to be the largest exporter of skimmed milk in the world because its producers sell abroad at prices that are half the cost of production.[46]

The Doha Round of WTO trade negotiations promised to depart from previous negotiations by giving priority to the development concerns of poor countries. However, the Round has made only halting progress and the outcome will at most generate total benefits of no more than $60 billion, less than 0.2% of current global domestic product.[47] "The limited nature of the gains from the Doha Round," remarked Sandra Polaski, "goes far in explaining the lack of urgency demonstrated by WTO negotiators."[48] According to a recent study sponsored by the Carnegie Foundation, the gains received by developing countries will be unequally distributed with China receiving the most benefits at from 0.8-1.2% of its GDP. The poorest countries—including Bangladesh and many sub-Saharan African countries—are projected to be hurt by the most likely negotiating outcomes.[49] These countries lack internationally-competitive agricultural sectors. Production from their industries will be displaced by imports from China and other developing countries with greater labor productivity. And the tariff reductions will diminish the least developed countries' advantages under special preference programs such as the United States' African Growth and Opportunities Act and the European Union's Everything But Arms Initiative. Wealthy countries took a first step toward recognizing this problem at the Hong Kong ministerial meeting in December 2005 when they agreed to allow duty-free and quota-free imports for 97% of their trade lines. The trouble with this concession is that a very large share of LDC exports fall in the 3% of tariff lines likely to be excluded from the measure.[50] More generous concessions are necessary if the poorest countries are to benefit from the Doha Round.

The creation of the international regime for intellectual property rights (TRIPs) also reflects the persistent domination of rich countries. In recent years, there has been considerable controversy among economists whether the monopolies created by intellectual property rights promote or diminish innovation.[51] Even as the United States Trade Representative worked with American multinationals to negotiate TRIPS during the Uruguay Round, the President's Council of Economic Advisers and the Office of Science and Technology Policy in the White House expressed deep reservations about the deal.[52] There are even more serious concerns about whether a single intellectual property rights regime is appropriate for both post-industrial economies with incomes of more than $20,000 per person and for industrializing economies with incomes of less than $1,000 per person.[53] The issue is especially pertinent since today's developed economies did not enforce private intellectual property rights—especially those of foreigners—when they were in the process of industrializing themselves.[54]

In theory, intellectual property rights should balance incentives to innovate with the social benefits gained from disseminating the innovation. However, under TRIPs, 96% of all patent revenues go to firms from developed countries,[55] while restrictions curtail the social benefits to developing countries available from innovations.[56] In the public health sector, TRIPs essentially redistributes the benefits of medical innovation away from poor countries by raising the costs of new medicines while offering little incentive for giant pharmaceutical multinationals to develop medicines most needed in poor countries.[57] The increased revenues granted to multinational pharmaceuticals are more likely to fund research focused on meeting the health needs of rich countries like the United States where the average annual health care budget is $4,000 per person rather than the problems in sub-Saharan Africa where average annual per capita health expenditures are just $20.[58] Only where there has been an international outcry against the suffering imposed by TRIPs—e.g., the HIV/AIDs pandemic—has the regime been relaxed. At the same time, developed countries

... under TRIPs, 96% of all patent revenues go to firms from developed countries...

continue to demand "TRIPs plus" provisions in bilateral and regional treaties with more stringent patent protection than in the WTO agreement.[59]

Another reflection of the politics of globalization is that as restrictions on international trade and capital flows have been liberalized, restrictions on global labor markets have increased. Wealthy countries often welcome the "best and brightest" from poor countries while they tighten restrictions on migration of semi-skilled and unskilled labor. This is in striking contrast with the more liberal approaches of the 19th and early 20th centuries when migration from Europe to the Americas enabled 60 million people to escape poverty and persecution while making major contributions to development in the western hemisphere.[60] In the 1890s, immigrants to the United States accounted for about 9% of the population. The immigration rate for the United States in the 1990s was only 4%—but that was still the highest immigration rate of all wealthy countries.[61] Overall immigration was an important factor in limiting global inequality during the era prior to WWI by creating a global labor market that diminished wage inequality around the world.[62] In the past 25 years, labor mobility has played a more limited role in promoting convergence. The limits on labor mobility are apparent by the fact that while global differences in the prices of comparable goods are no more than 100%, differences in the price of comparable labor run from 500% to 1,000%.[63] It is true that remittances have become substantial—growing to $199 billion in 2006.[64] Their distribution helps to mitigate growing inequalities between wealthy and poor countries as well as between developing countries. Easing restrictions on migration could help even more. According to a study cited by the World Bank, increasing temporary migration by approximately 3% of the workforce in high-income countries would increase global welfare by more than $150 billion annually. This increase would be equally shared between people in developed and developing countries.[65]

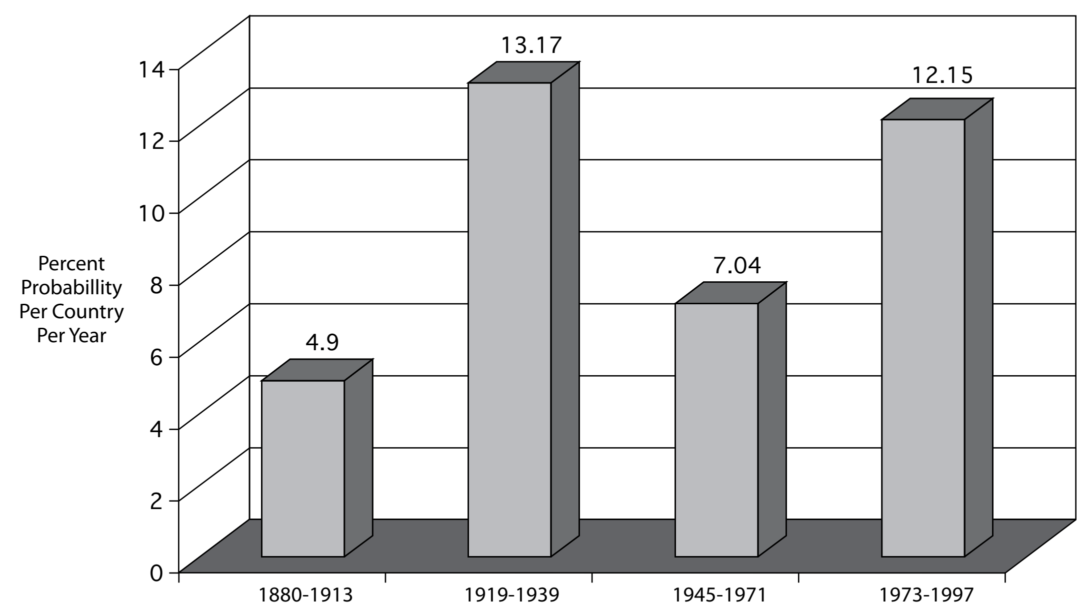
Increasing temporary migration by approximately 3% of the workforce in high-income countries would increase global welfare by more than $150 billion annually.

Global Finance in an Unequal World. Governance of global finance is distinct from trade in that there is no central international organization like the WTO that promotes the development of financial markets. Instead, the global governance of finance takes place through a range of different bodies including: meetings of the finance ministers and central bank presidents of the major advanced industrial countries known as the Group of Seven (G7), the Basel Committee for Banking Supervision, the Financial Stability Forum (FSF), and the International Monetary Fund (IMF). These organizations are more exclusive than the WTO. The membership of the first three excludes developing countries altogether—with the exception of Hong Kong and Singapore, which are part of the FSF's membership.[66] They only allow developing country participation on an *ad hoc* basis. The IMF has a more inclusive membership but its system of representation is weighted in favor of wealthy countries. It is frequently viewed as being unduly influenced by powerful countries.[67] Bilateral and regional treaties also play an important role in the development of international financial markets. Finally, some of the most important decisions affecting financial markets—for instance the ending of the pegged system of exchange rates established under the Bretton Woods system—resulted from unilateral actions by the United States. Under these circumstances, international financial markets show a bias that counters the benefits of global financial integration by shifting disadvantages to developing countries.

More Frequent Financial Crises. A recent study by the International Monetary Fund observed, "The proliferation of financial crises is often viewed as one of the defining aspects of the intensification of financial globalization over the last two decades."[68] According to the World Bank, "Recent decades have seen a record wave of crises: by [2000] . . ., there had been 112 episodes of systemic banking crises in 93 states since the late 1970s—and 51 borderline crises were recorded in 46 countries. These crises were both more numerous and expensive, compared with those earlier in history, and their costs often devastating in developing countries."[69] The probability that a country would experience a crisis in any given year increased from 5% during the first era of globalization 1880–1913 to 7% from 1945–1971 to more than 12% from 1973–1997 (see Figure 10). During this most recent period, developing countries were twice as likely as developed countries to suffer from a financial crisis. According to a study of 23 developed countries and 30 developing countries, developed countries experienced financial crises every 10.9 years on average, while the average for developing countries was every 5.4 years—or twice as frequently.[70] These crises hit developing countries especially hard. Output losses from financial crises were 47% greater

. . . developing countries were twice as likely as developed countries to suffer from a financial crisis.

Figure 10: Frequency of Financial Crises



Source: Barry Eichengreen and Michael D. Bordo, "Crises Now and Then: What Lessons from the Last Era of Financial Globalization?" *National Bureau of Economic Research Working Paper 8716* (January 2002), Table 5. Available at http://www.nber.org/papers/w8716 in developing countries, with an average output loss of 9.21% of GDP for developing countries and 6.25% for developed ones.[71]

During the 1990s consumption in developing countries was three times as volatile than in industrial countries, with volatility increasing the most in internationally-integrated developing economies.

Financial globalization has caused greater volatility in developing countries than in developed ones. During the 1990s consumption in developing countries was three times as volatile than in industrial countries, with volatility increasing the most in internationally-integrated developing economies.[72] International investors helped finance consumption booms in the late 1980s. In many developing countries, the booms were magnified by reforms—often encouraged by the IMF, World Bank, and United States government—that liberalized financial sectors and lifted constraints on the use of financial assets. Incoming investment contributed to the appreciation of the values of local currencies, which in turn created problems for local exporters and import-competing sectors who found the prices of their goods rising relative to competitors. Foreign exchange traders then speculated on the currencies, and international investors eventually pulled the plug and precipitously cut capital inflows.[73] For example, international capital flows to the five countries hardest hit by the Asian financial crisis (Indonesia, Thailand, Malaysia, the Philippines, and South Korea) dropped from an inflow of $93 billion in 1996 to an outflow of $12 billion in 1997. This $105 billion reversal was 11% of the combined pre-crisis GDP of these countries.[74] In the wake of the crisis, exchange rates depreciated, greatly increasing the difficulty of paying foreign currency denominated debt. Finally, austere macroeconomic policies urged on them by the IMF magnified their economic downturn. The number of bankruptcies increased, and unemployment grew.

A number of features of the global economy enhance the degree to which global capital flows sow economic disruption in developing countries. The growing availability of short-term debt in international markets contributes to volatility, and developing countries with high levels of short-term debt are more likely to experience debt crises.[75] Credit ratings for developing countries follow market developments. During booms, positive ratings lower the costs of borrowing and increase capital inflows. During economic crises, downgraded ratings accelerate capital flight and increase the costs of borrowing. Credit ratings for developing countries are lowered more rapidly in times of adverse shocks than they are upgraded in favorable periods, and the capital outflows in economic crises are twice as large as inflows.[76] The behavior of international investors adds to the problem. "Herding," where investors mimic the actions of their peers and "momentum trading," when investors pursue strategies based on recent market movements, increase the pro-cyclical movement of international capital flows. Incentives to maximize short-term returns and the linking of the compensation of investment managers to their performance relative to other managers increase the tendency toward herding.[77] The use of financial instruments known as derivatives strengthens the downward pressures on the currencies of developing countries when investors rush to hedge their currency exposure in anticipation of a crisis.[78] These factors can lead to the phenomenon known as "contagion," where destabilizing investors expose developing countries to risks that are unrelated to their economic fundamentals.[79]

These are some of the ways that the economies of developing countries have become profoundly affected by factors beyond their control. Another example is the manner that U.S. Federal Reserve Board Chairman Paul Volcker's decision to raise American interest rates to historically unprecedented levels in 1980—widely known as "the Volcker shock"—greatly increased the debt burden of developing countries. The cost of the developing countries' foreign debt is not only influenced by the decisions about interest rates made by policy-makers in wealthy nations. The availability of foreign direct investment is strongly related to business cycles in the United States[80] and portfolio equity flows from the United States to major emerging markets drop with increases to American interest rates and output growth.[81]

Global financial markets impose sacrifices on developing countries by requiring them to borrow in "hard" foreign currencies regardless of their economic fundamentals.[82] This requirement effectively transfers exchange rate risk from rich to poor countries. During the period from 1999–2001, while less than 1% of the international debt for the U.S., UK, Japan, and Euro-currency countries was denominated in foreign currencies, 93% of all developing country debt—including all of Latin American debt—was in foreign currencies.[83] Using soft currencies to pay for loans denominated in hard currencies—what economists call "original sin"—has a positive and statistically significant relationship to exchange rate and macroeconomic volatility even after holding constant the level of development, openness, and foreign debt.

Cost of Restoring Stability. The incidence of economic crises has declined since 2002. In recent years, many developing countries have tried to protect themselves from economic crises by accumulating large amounts of hard currency reserves and increasing the flexibility of exchange rates. Developing countries' foreign reserves rose by $633 billion in 2006 after increases of around $400 billion in the previous two years. Since 1997, the ratio of foreign exchange reserve to GDP for all developing countries has risen from less than 10% to almost 25%.[84] In essence, developing countries buy stability by transferring capital to the United States. In 2006 alone, the U.S. imported $870 billion in capital. The transfer helps to keep the American market open to imports. It potentially gives the countries who have accumulated large foreign exchange surpluses—such as China and oil exporters—clout in global financial markets.[85] Nonetheless, maintaining large reserve holdings imposes substantial costs on poor countries since foreign reserves provide a lower return than investments promoting domestic development. According to one estimate, the cost of the reserves added since the 1980s is close to 1% of developing countries' GDP—an amount equal to the projected gains for developing countries from a successful conclusion of the Doha Round of trade negotiations.[86]

IV. Domestic Inequality and the Politics of Economic Development

Economic and political inequality plays an important role in determining whether domestic politics will promote development or stagnation. To explain how this occurs, we investigate the mechanisms through which inequality affects economic change in developing countries. These mechanisms come into sharp contrast during colonial rule, and the manner in which they create disparate colonial legacies. In the last 25 years, electoral democracy has spread across the developing world. We explore the puzzle of increased democracy but growing inequality. Finally, we examine some of the outcomes of recent economic development in an era of growing economic integration, rapid technological change, and persistent international and domestic inequality. We highlight the development of spatial inequality traps, cumulative inequalities, and declining economic security.

Inequality and Growth. Some economists have argued that inequality increases growth because the wealthy have higher savings rates,[87] but this position has little empirical support.[88] Other economists find that economic inequality reduces growth, but they have not reached a consensus on the ways in which this happens.[89] Some point out that increased inequality diminishes growth because capital market imperfections—due to informational asymmetries or institutional constraints—limit the borrowing capacity of people with few tangible assets even when they have viable economic projects.[90] Other analysts contend that inequality incites demands for redistribution that interfere with the efficient allocation of resources.[91] These arguments posit that inequality has the same negative impact on growth regardless of its level. Recent research finds evidence that the impact of inequality on economic growth may be curvilinear. Increasing inequality at very low levels accelerates growth because too much equality reduces productive incentives, promotes freeriding, shirking, and increases supervision costs. In contrast, increases of inequality at very high levels are found to diminish growth by reducing incentives for those at the bottom of the social hierarchy, eroding social solidarity, magnifying social tensions, making property rights more insecure, and impeding the efficient operation of labor, capital, and product markets.[92]

Increases of inequality at very high levels are found to diminish growth by reducing incentives for those at the bottom of the social hierarchy, eroding social solidarity, magnifying social tensions, making property rights more insecure, and impeding the efficient operation of labor, capital, and product markets.

We can have a closer look at how inequality affects economic development through micro-level studies that examine how collective action creates public goods such as infrastructure, sustainable environmental practices, and the protection of common resources. These studies find that the relationship between inequality and development is dependent on the institutional context in which it occurs. They offer an important argument *in favor of* economic inequality by showing that when economic elites receive a sufficiently large share of the benefits, they will bear the costs of initiating collective action to produce public goods.[93] However, there are three qualifications to this claim. First, the capacity of elites to initiate successful cooperation varies with the type of collective action problem. In some cases—for instance, regulation to prevent resource degradation—realization of the public good can be undermined if the incentives for cooperation by non-elites are insufficient.[94] Second, the more elites have attractive alternatives—for instance, through income diversification—the less willing they will be to pay the costs to produce public goods.[95] Finally, where elites create institutions to achieve public goods, they often devise the rules for their own benefit at the expense of others.[96] Elites' tendency to fashion flawed institutions leads to the most serious problem for economic development. High degrees of economic and political inequality enable elites to resist efforts to reform inefficient institutions. Moreover, it is now widely accepted that developing countries are poor in large measure because their institutions do not encourage productive activity.[97]

Reforming Economic Institutions. Why do inefficient institutions persist in a world where international competition creates incentives for greater efficiency; improvements in transportation and communications technology make people around the world more aware of developments abroad; and international financial institutions take on the mission of promoting global best practices? To answer this question, we must look at the politics of reforming economic institutions.

Higher levels of inequality make it more difficult to change inefficient economic institutions that benefit elites.[98] Scholars have suggested two reasons why this is so. First, increasing inequality usually reduces the number of elites while increasing the numbers of subordinate groups. As their numbers decline, it becomes easier for elites to organize resistance to change, while collective action by subordinate groups becomes more difficult to organize as their numbers increase.[99] Second, by placing more resources under elite control, increasing inequality increases elite capacity to establish forms of social organization—such as religious communities, ethnic networks, patron-client relations, etc.—that link subordinate groups to them while dividing them among themselves. "Many of the inequities of the world" according to Amartya Sen, "survive by making allies out of the deprived and the abused."[100]

Higher levels of inequality make it more difficult to change inefficient economic institutions that benefit elites.

The world complicates these stylized tendencies.[101] Elite fragmentation and competition reduces their resistance to institutional change. Changes are more likely to be accepted in times of external threats and economic disaster. There are different types of institutional change, and elites are more likely to accept changes when they do not threaten their privileges. Elites are more likely to accept the introduction of industrial institutions when their societies have higher levels of human capital since it increases their future returns. As strategic actors, elites are also influenced by the nature of their political coalitions and the availability of acceptable alternative coalitions. Finally, the impact of ideas and culture may be crucial. Examining the impact of colonialism on developing countries helps us to understand how inequality affects development today.

Colonial Legacies, Inequality, and Economic Development. In 1700, the per capita income of the United States was less than that of Mexico and 30 Caribbean countries. Today, it is more than eight times greater than the average for all developing countries. How did this huge gap develop? Analysts of economic development call attention to institutions as an important variable affecting economic performance.[102] Why do some countries develop better institutions than others? Answers to this question point to the importance of colonial legacies in shaping institutions that are central to economic development. The more we learn about colonialism, the more impressive is the diversity of colonial regimes. Colonial rulers initiated different pathways to development in response to the colonies' diverse factor endowments. These developmental trajectories were initiated with the establishment of different economic and political institutions that perpetuated disparate levels of social inequality. Political elites in countries with higher levels of inequality were better able to resist changes in institutions and policies that promoted development but threatened their privileges. In many cases, the perpetuation of inequality and inequitable institutions led to conflicts that disrupted the developmental process.

Colonial regimes were not imposed on blank canvas. Pre-colonial history has significant consequences for developing societies in the post-colonial era.[103] Societies with well-established pre-colonial state structures and bureaucratic cultures tend to achieve better enforcement of property rights and higher levels of development than societies without these pre-colonial institutions.[104]

Analysts investigating the diverse colonial experience in the Americas have found that different endowments of colonies, including climates, soils, and density of indigenous population, led to different developmental strategies, institutions, and levels of inequality even in colonies ruled by the same colonial power.[105] Extreme economic inequality developed where climate and soils supported the cultivation of lucrative crops for export to the world market such as sugar and coffee. Slaves were imported in the sugar-producing areas of the Caribbean and Brazil where the indigenous population was too small to support plantation agriculture. In areas with abundant labor, the Spanish imposed practices (e.g. *encomienda*) that provided Europeans with exclusive claims on land, minerals, and the right to the labor of local subjects. Extreme inequality often developed between the oligarchies of European descent and large populations descending from slaves, indigenous peoples, or mixed backgrounds. In countries like Guatemala, Peru, and El Salvador, elites used their power to delay the extension of the vote, and the political consequences of economic inequality limited investment in public goods such as education and infrastructure that are vital to economic development. The contrast with the developmental trajectories of the northeastern United States and Canada is striking. In these areas, cheap but cultivable land and costly labor led to more equitable development characterized by inclusive citizen rights, widespread public education, and greater access to economic opportunities. These factors, coupled with greater public investment in infrastructure and policies that made land and capital more readily available, promoted more extensive market networks, a greater pace of innovation, more efficient resource use, and higher rates of growth. Moreover, the developmental trajectories of societies like Guatemala, El Salvador, and Peru differ from those of Argentina, Uruguay, and Costa Rica where factor endowments did not allow for labor-intensive mining or large-scale plantation farming.

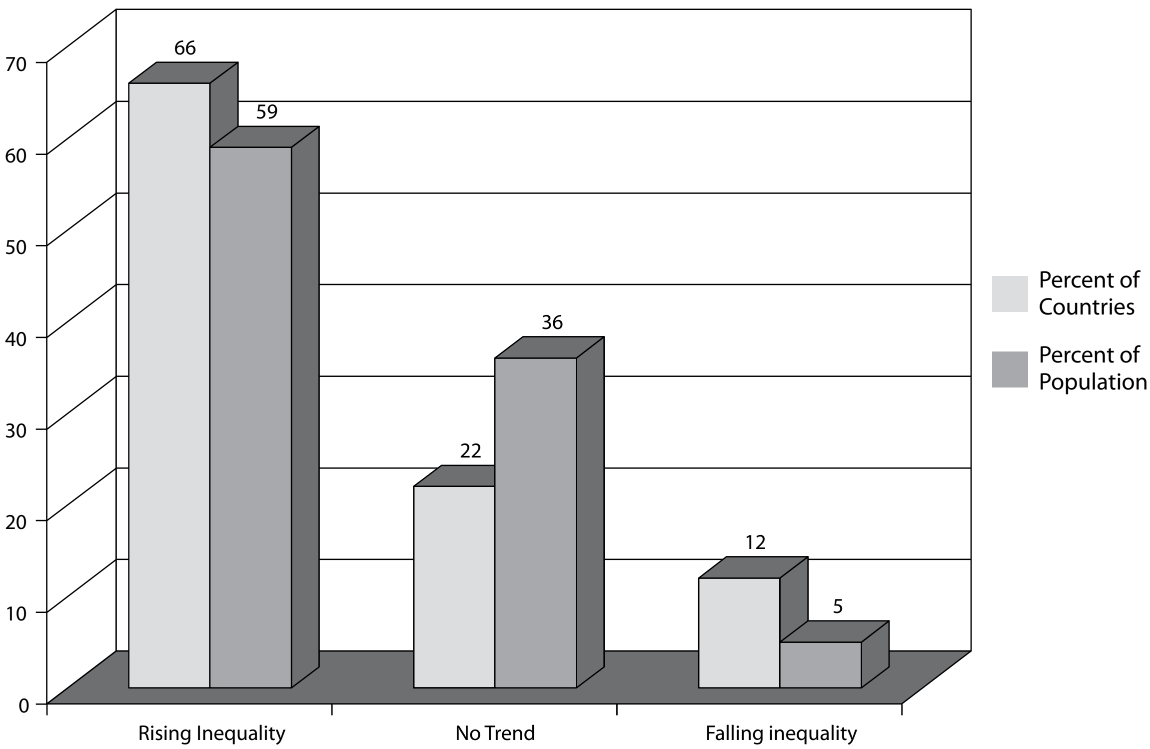
It was not the plunder of resources—though of that there was plenty—that created the gap between developing and advanced industrial societies, it was the institutional differences. Inclusive property rights' regimes enabled some colonies and former colonies to respond more effectively to the opportunities presented by the industrial revolution. Extractive institutions that excluded vast sections of the population from secure property rights were adequate for plantation agriculture or mineral extraction, but they were ill-suited for a dynamic industrial society.

The capabilities of the political system are also important. The type of political and economic institutions developed by colonial rulers cannot be easily reduced to factor endowments. The nature of political encounters with colonial subjects created a dynamic of its own. The French colonial legacy in Senegal contrasts sharply with that in Togo. The British colonial legacy in India contrasts with that in Sierra Leone. A useful way of conceptualizing these differences is in terms of: (1) the extent to which the colonial regime extended democratic political practices; (2) variation in administrative capacity; and (3) ethnic imbalances in the colonial state's administration, military, and economic policy.[106]

Inequality and variation in economic and political institutions are important explanations of another factor causing disparate levels of development between wealthy and poor countries: destabilizing social conflict. In much of the developing world, colonialism contributed to instability by creating political boundaries that gathered disparate social groups into the same political unit for the sake of administrative convenience. In some cases, colonial rulers attempted to facilitate their rule by encouraging the construction of rival identities among different groups.[107] Przeworski and Curvale demonstrate that political instability helps to explain the gap in economic development between the United States and Latin America today. Political instability and conflict caused in part by economic and political inequality are an important part of the explanation of why Latin American countries fell behind. In Latin America, the wars of independence and their aftermath impeded growth prior to 1870. When political institutions capable of resolving conflict were finally established, economies grew even

. . . colonialism contributed to instability by creating political boundaries that gathered disparate social groups into the same political unit for the sake of administrative convenience.

Figure 11: Inequality Within Countries: Trends in 73 Countries from 1950s to 1990s



Source: Giovanni Andrea Cornia, ed., *Inequality, Growth and Poverty in an Era of Liberalization and Globalization* (Oxford: Oxford University Press, 2004), 40.

when the institutions were inequitable. However, throughout the entire period, political inequality—in the form of lower levels of suffrage—frequently contributed to politically destabilizing distributional conflicts—e.g. over land, wages, and working conditions—which in turn were associated with lower levels of growth.[108]

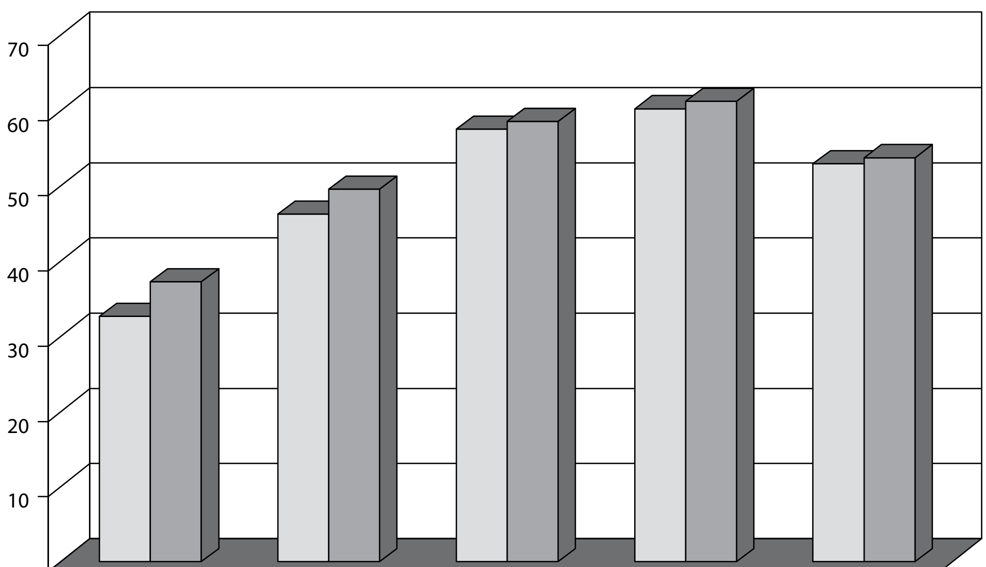
More Democracy but Increasing Inequality. In the last 30 years, the world has seen a dramatic spread of democracy. The number of countries with democratically-elected governments has exploded from 39 in 1974 to 122 in 2005.[109] At the same time, domestic inequality has increased in most developing countries. From 1990 to 2004, the share of consumption of the poorest fifth of the people in developing countries declined from 4.6% to 3.9%.[110] According to an authoritative study covering countries with 80% of the world's population, between the1950s and the 1990s inequality increased in 48 of 73 countries (66%) with a 59% share of the population of all countries in the study. Inequality decreased in only 9 of 73 countries (12%) with only 5% of the population of countries in the study (see Figure 11).[111] While democracy does not inevitably lower inequality, it offers the excluded and underprivileged the opportunity to make public policy more responsive to their needs. Why hasn't the spread of political equality under democracy reduced economic inequality?

Impact of International Markets and Technological Development. Part of the explanation for increasing inequality in emerging democracies lies in the economic sphere. Wealthy countries have shaped global markets in ways that contribute to more frequent economic crises and distort economic development in poor countries by discriminating against their agriculture, industry, and labor.[112] As developing countries become more exposed to international markets, many have reduced social welfare spending.[113] Greater dependence on international finance has often compelled developing countries to adopt fiscal conservatism and curtail redistributive policies.[114]

Economic crises, often resulting from greater exposure to international markets, cause greater inequality. Unlike most wealthy countries, poor countries are unable to gain access to international finance at times of economic crisis. Instead, they are obliged to impose austerity measures that reduce social welfare benefits for the poorest members of society.[115] Spending on public education and public health, which both promote economic development while improving the plight of the poor, are frequently hard hit. Moreover, in the wake of economic crises, the wealthy disproportionately benefit from bailouts—as depositors, creditors, equity owners, etc.—while the less affluent suffer disproportionately from the increasing unemployment, declining real wages, and reductions in social welfare programs associated with

... financial crises consistently increase inequality.

Figure 12: Financial Crises and Income Distribution: Pre- and Post-Crisis Gini Coefficients for Select Countries



	Korea 1996/1998	Philippines 1994/2000	Thailand 1996/1999	Brazil 1996/2001	Mexico 1992/1996
Pre-crisis Gini coefficient	32.6	46.2	57.5	60.2	52.9
Post-crisis Gini coefficient	37.2	49.5	58.5	61.2	53.7

Source: Nancy Birdsall, "Stormy Days on an Open Field: Asymmetries in the Global Economy," Unpublished (Washington, DC: Center for Global Development, 2005), 30.

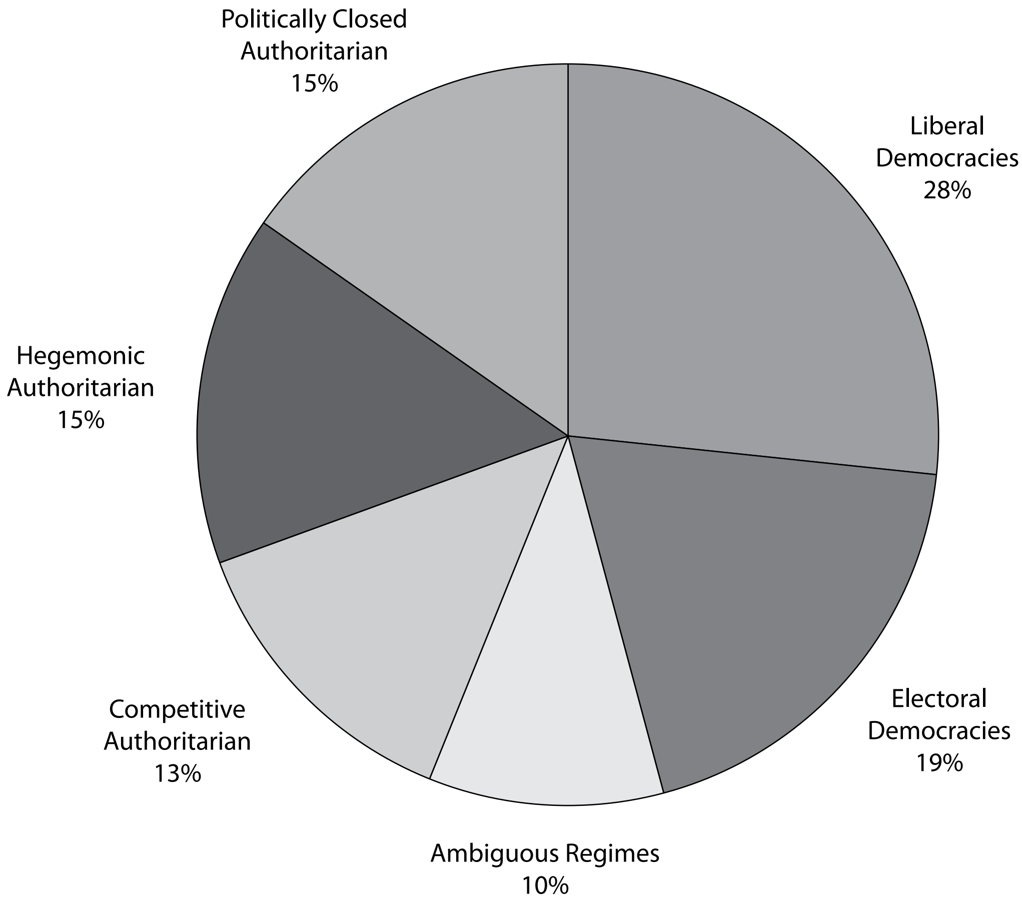
austerity measures. Figure 12 demonstrates that financial crises consistently increase inequality.[116]

Finally, though the mechanisms vary from country to country and even within the same country at different times, technological change favoring skilled workers has interacted with economic liberalization to increase inequality.[117] Inflows of foreign direct investment have increased demand for skilled labor which has enlarged the skill premium and contributed to greater wage inequality. Outsourcing production of intermediate goods from developed to developing countries increases inequality by enhancing the demand for skilled workers in developing countries. In an effort to become internationally competitive and upgrade their export product mix, firms in developing countries often adopt skill-intensive technologies that increase the earnings gap between skilled and unskilled workers.

Limited Advance of Democracy in Developing Countries. Pressure for greater equity has also been constrained by the limited advance of democracy. Many developing countries have some of the trappings of democracy, but their political systems are still not responsive to the needs of their underprivileged citizens. Thomas Carothers estimates that of the nearly 100 developing countries considered as being in transition to democracy, less than 20 are clearly en route to becoming successful, well-functioning democracies.[118] The rest are in a "grey zone . . . between full-fledged democracy and outright dictatorship."[119] In some countries, there is electoral competition, but political elites are "profoundly cut off from the citizenry." Citizens do not participate outside of elections, and they view politics as a "corrupt, elite-dominated domain." In other developing countries, there is little political competition because the political system is dominated by a single party that exploits the state's resources to advance the political and economic interests of its members.[120] Observing that "the trend toward democracy has been accompanied by an even more dramatic trend toward pseudodemocracy,"[121] Larry Diamond finds that in 2001 only 26% of 162 developing countries were liberal democracies while 19% were "electoral democracies" with substantial limits on civil liberties. Another 39% belonged to various categories of "hybrid regimes" that combine democratic and authoritarian elements and 15% were "politically closed authoritarian regimes" (see Figure 13).[122] Most analysts agree that despite important advances, the practice of democracy in a large number of developing countries is limited by weak enforcement of civil liberties,[123] excessive centralization of power in the executive branch, weak checks and balances between different governmental agencies,[124] and limited participation by the poorer segments of society due to low levels of basic education and political literacy.[125] These limits make it more difficult for citizens to hold their governments accountable. They make it easier for public policy to favor elites and increase inequality.

... of the nearly 100 developing countries considered as being in transition to democracy, less than 20 are clearly en route to becoming successful, well-functioning democracies.

Figure 13: Share of Regime Types in Developing Societies, 2001*



*Calculated from Larry Diamond, "Thinking about Hybrid Regimes," *Journal of Democracy* 13:2 (April 2002), Table 2, 30–31.

New Patterns of Popular Mobilization. A third explanation for the increase of inequality under democracy lies in the strategies of political elites to maintain popular support. By the end of the 1970s, the public became dissatisfied with the economic problems—e.g. high inflation, the inefficient provision of goods and services, limited opportunities, etc.—that resulted from the import substitution industrialization policies in many developing countries. At the same time, the internationalization of markets for trade and finance created opportunities to promote economic growth through expanded trade and accessing foreign capital and technology. Policy-makers were influenced by the international diffusion of ideas promoting market-based solutions to public problems. They also encountered strong pressure from international financial institutions and powerful developed countries to liberalize their policies and open their markets. These developments created incentives for political leaders to develop new strategies to mobilize political support in order to make the new policies politically acceptable even when they were contributing to increasing inequality.

The strategies have varied with the political context, but in virtually all cases political leaders were careful not to implement reforms that undermined their own power. If possible, they designed reforms to boost their political support. In generating unprecedented growth, China's economic reforms created a new capitalist class that remains a bulwark of political support for the Communist Party even as its policies relegate state socialism to the dustbin of history. Reforms in India have elevated the role of business in policy-making.[126] Economic policy change in sub-Saharan Africa often reinforced the positions of powerful political elites because it strengthened their neo-patrimonial rule.[127] In Latin America, politicians have used new policies to build alliances with powerful segments of the business community who in turn provide financial contributions used to mobilize popular political support.[128] Technocrats ascended to powerful policy-making positions to signal commitment to economic reforms, and they contributed to a process of policy formation that was more insulated from popular pressure.[129]

In many countries, "partial reforms" have benefited some actors who in turn stymie further reforms when they threaten their power.[130] Privatization has been a particularly important means of consolidating core constituencies and attracting support from particular segments of the business community including international business.[131] In their review of the distributional impact of a wide range of privatization programs, Nancy Birdsall and John Nellis conclude, "At least initially, and on average, privatization has worsened wealth distribution and to a lesser extent, income distribution."[132]

Privatization has been a particularly important means of consolidating core constituencies and attracting support from particular segments of the business community including international business.

At the same time that political leaders cultivated the support of business and other powerful groups for economic reforms, they also attempted to strengthen popular backing for their regime. In Africa, there were few institutionalized means to represent popular interests.[133] Political elites used foreign assistance and economic reform to enhance their power and bolster their allies in the elite strata of society.[134] If any resources were transferred to the lower echelons of society, it was done largely through patronage-based programs that were designed to exchange those resources for popular support for the ruling coalition.[135]

In Latin America, urban migration since the 1950s and the growth of the informal and service sectors diminished the importance of organized labor and eroded the bases of support for populist parties. Political leaders adopted new strategies for mobilizing support in response to these changes. "Neopopulism" replaced the organizational resources of labor unions with the financial power of business as the currency of political mobilization. In Argentina and Mexico, legal restrictions were placed on the activities of trade unions.[136] Mobilizing the unorganized urban poor and middle class became increasingly central to neopopulist electoral strategies. Some neopopulist leaders created anti-poverty programs directly under their control as a source of patronage that they used to recruit leadership and build popular support.[137] Almost all leaders courted support by using the mass media, especially television, to appeal to the popular classes. Many broadcasted spectacles that highlighted their charismatic appeal and demonstrated their affinity for popular culture.[138] A startling number of political leaders implementing neoliberal reforms after electoral campaigns made no mention of this new policy direction. From 1980 to 1995, of the 33 elected governments that implemented neoliberal reforms in Latin America, 12 adopted neoliberal reforms only after abruptly abandoning their previous positions.[139]

Beginning in the late 1990s, Latin American voters became disillusioned with neo-liberal reforms that had failed to address their country's persistent or worsening of inequality. Since 2000, many Latin American countries elected politicians who pledged to ameliorate the inequities associated with neoliberal economic reforms. Whether these political leaders will succeed in creating diversified economies that can take advantage of sustained high levels of growth and more equitable development remains to be seen.

Persistent Inequalities Often Increase Inefficiency and Economic Insecurity. Inequality shapes economic geography. Participation in markets requires physical and human infrastructure that integrates people with the market. People lacking political influence receive fewer and lower quality public services than more influential ones. These disparities become acute when budgets for public investment come under pressure. The uneven distribution of infrastructure and social services can generate "*spatial inequality traps*"[140] that leave vast expanses of territory backward and economically stagnant. In nine East African countries, maintenance spending covered only 20% of current road networks, and for Africa as a whole maintenance on roads was less than half the necessary expenditure in the early 1990s.[141] In Latin America, investment in infrastructure dropped from 3% of GDP in 1980 to less than 1% in 2001.[142] In India, the share of state government expenditures on social services declined from 53% in the 1980s to 35% in the 1990s while the share of expenditure on economic services declined from 44% to 30%.[143]

The uneven distribution of infrastructure and social services can generate* spatial inequality traps *that leave vast expanses of territory backward and economically stagnant.

Multiple inequalities cumulate. They impose the worst suffering. Minorities, women, and indigenous peoples are acute victims of inequality traps. They face disproportionate impediments to accessing capital and education. Infrastructure in their areas is often substandard. Consequently, they are less able to participate in the benefits of economic development, and they suffer higher rates of poverty. In Mexico, indigenous Mexicans have an 81% poverty rate compared to 18% for the rest of the population.[144] Women and female children in India's poorest state of Bihar are not only the least educated (female literacy

Minorities, women, and indigenous peoples are acute victims of inequality traps.

China: Rapid Growth but Increasing Inequality and Insecurity

Inequality and insecurity are serious problems even in the world's fastest growing economy. China enjoyed an annual rate of growth of 9.6% from 1979 to 2006.[145] This growth has produced a huge drop in poverty. More than 400,000 people have been lifted above the absolute poverty line during this period. At the same time, China has been transformed from one of Asia's most equal societies to one of its most unequal ones — China's Gini coefficient for income distribution increased from 0.30 in 1982 to 0.45 in 2002. The distribution of wealth was even more unequal with a 0.55 Gini coefficient.[146]

Economic insecurity has also increased. Under the old state socialist system, life-time employment was guaranteed and the *danwei* system provided social welfare benefits through the work unit. These benefits have been rolled back. Employment is now increasingly through the "labor contract system" for public and large private firms, and through often highly informal labor markets for others. Managers of state-owned enterprises (SOEs) and other public firms now lay off workers and end labor practices that they fear result in competitive disadvantage. Eager to attract more foreign and domestic investment and ensure that enterprises in their localities are successful, many local governments turn a blind eye to labor abuses.

Employment in SOEs dropped from a peak of 110 million in 1995 to 65 million in 2005. Employment in town and village enterprises (TVEs, many of which are now privatized) plunged from more than 36 million in 1991 to 14 million in 2005. Though employment outside the state and collective sectors has grown rapidly—increasing from 23 million in 1994 to 102 million in 2005, it has not grown fast enough to absorb laid-off workers. Unemployment has risen, and many workers have been forced into insecure jobs in the informal sector.[147]

These changes in employment might be less serious if they occurred in a society with an adequate social safety net. Unfortunately, social welfare programs have weakened considerably. Modest unemployment benefits favor workers from better-endowed SOEs.[148] Workers laid off from collective, private, or foreign enterprises, receive little if any benefits. Reforms have decentralized responsibility for welfare programs to the local level, but the share of county and village governments in national fiscal revenues and expenditures has continuously declined over the last decade. Wealthier localities no longer transfer funds to poorer ones. At best, poverty-stricken localities receive *ad hoc* subsidies from the central government. The Chinese must now pay user fees for education and health. One study found that education costs ranged from 12-35% of household outlays. Health care ranged between 5-14% of income.[149] The poor sacrifice the most. School attendance has dropped, especially among girls - from 1980 to 1990, the number of girls attending primary school plummeted from 65 million to 57 million. By 2000, the number remained 3 million below the 1980 level even though the female population had grown by 27%.[150] The World Health Organization rated China's health care system the third most inequitable system in the world, just after Burma and Brazil.[151]

India: Persistent Problems of Inequality and Insecurity Despite Accelerating Growth

Despite the acceleration of India's economic growth in recent years, increasing inequality and declining security will remain persistent problems for the foreseeable future. India's economy has grown at an annual rate of 8.5% in the four years since 2003.[152] Industrial growth has accelerated to almost 10% annually since 2004. Annual employment generation rose from 1% during 1994-2000 to 2% per year during 2000-2005.[153] Poverty has declined steadily during the reform period. Only 22% lived below the poverty line in 2004.[154]

India's accelerated growth has generated considerable benefits, but these have not been evenly distributed. Economic inequalities have worsened since the early 1980s. The top 1% of income-earners receive a growing share of the total income.[155] The share of profits in the value-added portion of the organized manufacturing sector increased from 11.6% in 1987 to 45.5% in 2003 while the share of wages dropped from 56.4% to 35.7%. From 1993-1994 to 1999-2000 (the latest year data are available), inequality of urban wages increased by 25% from a Gini coefficient of 0.4 to 0.5.[156] Regional inequality is also growing. The variation of per capita income of Indian states rose from 25% in the 1980s to 43% in the 1990s.[157]

Rising inequality has been accompanied by growing economic insecurity. While job creation accelerated during 2000-2005, it was still less than the 2.9% annual growth of the labor force. All of the new jobs were created in the informal sector where workers do not receive pensions or compensation for sickness or work accidents. The share of informal sector employment to total employment rose from 92.7% to 94.15%.[158]

The challenge of transforming India's huge agricultural sector—60% of India's workforce continues to be employed in agriculture even though the share of agriculture in its economy has declined to 18.5%—means that the problems of inequality and insecurity will persist for the foreseeable future. Under the leadership of Manmohan Singh, the Government of India attempted to promote rural development by increasing investment in rural infrastructure, but it is difficult to see how agriculture can be modernized without seriously disrupting an agrarian structure with 80% of the agricultural holdings less than five acres. A key element of the new strategy is to promote a "second green revolution by shifting production from cereals to higher value crops such as fruits, vegetables, dairy, and meat." The government is taking measures to encourage the involvement of private-sector corporations through contract farming to promote this transformation. However, this strategy is likely to promote geographical disparities as corporations concentrate their efforts in the most favorable areas. It may also increase rural inequality since corporations are likely to prefer contracts with large rather than small farmers. The success of this strategy will challenge Indian policy-makers to devise policies to alleviate the social disruption that accompanies the radical transformation of the livelihoods of millions of small farmers.[159]

rates in some districts are below 3%) but also the most malnourished. Most developing societies are patrilineal with inheritance passed on to men. Property rights regimes often discriminate against women even in societies—like in sub-Saharan Africa—where agricultural production depends heavily on women's labor. Families invest less human capital in their female children, and societies impose restrictions on women's mobility. Labor markets discriminate against women, paying them less for comparable work.

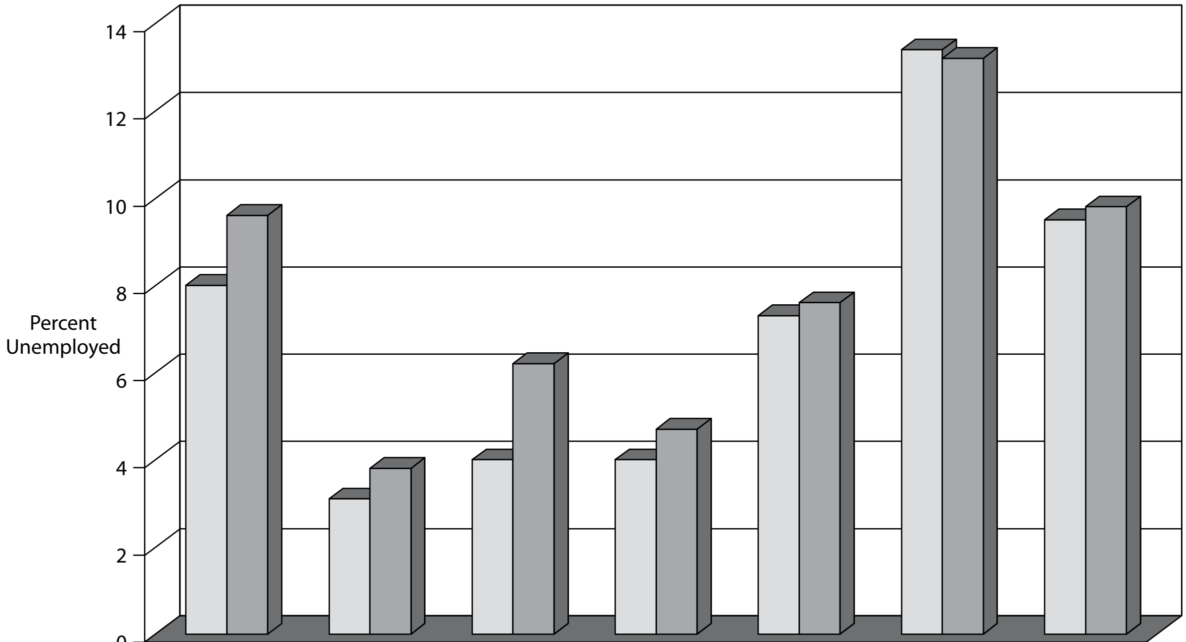
The accumulation of these disparities curtail the life chances of women even though they work significantly longer hours than men when market and non-market activity is combined. The worst manifestation of this inequality is in the female infanticide that produces sex ratios of 1.17 males (under four years old) to females in China, 1.15 in Korea and 1.08 in India.[160]

High levels of inequality can undermine the efficiency of markets. Property rights are unevenly enforced with claims by women and the poor being the least secure.[161] Wealth and power affect the allocation of resources by markets with imperfect information. This is especially true for financial markets. Credit markets, in countries like Indonesia and Mexico, deem wealthy borrowers more creditworthy and charge them lower interest rates.[162] Poorer individuals who are unable to provide collateral cannot get credit at any interest rate regardless of the merit of their projects. In many countries including Brazil, India, Thailand, and Pakistan, politically-connected firms get privileged access to finance from public sector agencies.[163] In Mexico, politically-connected firms absorb so much finance that they reduce the access of competitors even though they were 33% more likely to default.[164] Insider trading on equity markets like India, Pakistan, and Brazil may artificially inflate or deflate prices causing small investors to lose their savings.[165] Economic trends within developing countries have significantly increased economic insecurity. Since there are few good indicators of changes in the aggregate level of economic security, this is one aspect of economic development that is not fully appreciated. Unemployment is one measure of economic insecurity. However, unemployment rates are only crude indicators since most people in developing countries cannot afford to be unemployed. They find some job or another—often in the informal economy—to eke out their survival. Thus, unemployment rates understate levels of economic insecurity because they do not account for underemployment, job insecurity, lack of employee rights at the workplace, and inadequacy of income to sustain people through difficult times, etc. Despite robust economic growth and a 2% annual productivity growth since 1995, unemployment is up over the last 10 years in every developing region but the Middle East and Northern Africa (see Figure 14).

High levels of inequality can undermine the efficiency of markets. Property rights are unevenly enforced with claims by women and the poor being the least secure. Wealth and power affect the allocation of resources by markets with imperfect information.

Economic trends within developing countries have significantly increased economic insecurity.

Figure 14: Unemployment in Developing Countries By Region



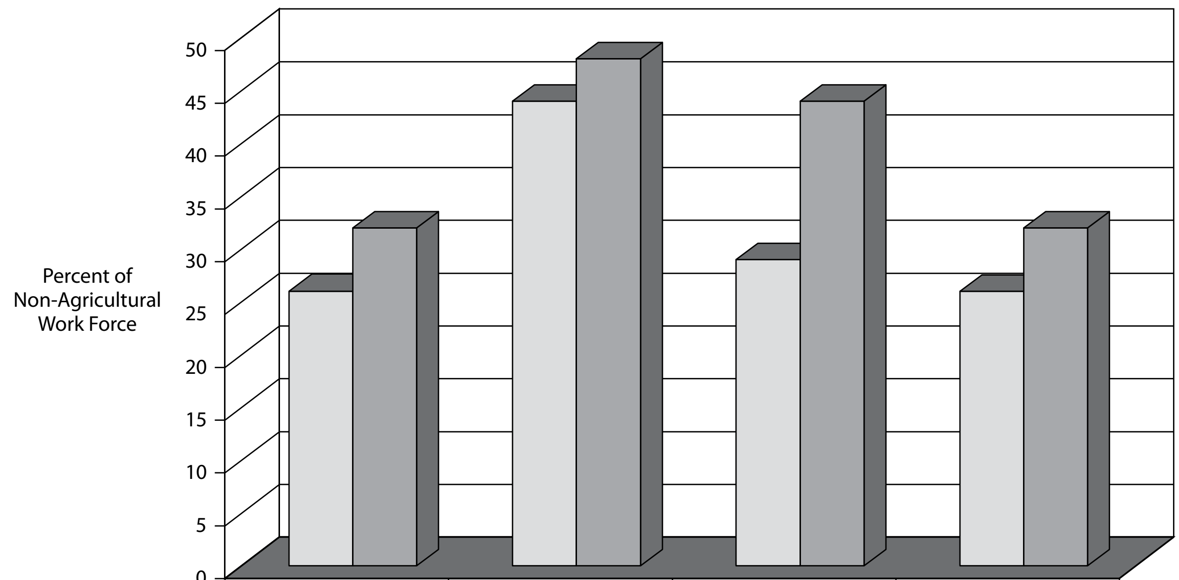
	E. Europe & CIS	East Asia	SE Asia & Pacific	So. Asia	LA & Caribbean	MENA	Sub-Saharan Africa
1994-1995 Average	8	3.1	4	4	7.3	13.4	9.5
2004-2005 Average	9.6	3.8	6.2	4.7	7.6	13.2	9.8

International Labor Organization, *Global Employment Trends Brief January 2006*, 11; *Global Employment Trends Brief February 2005*, 8. Available at <http://ilo.org/trends>.

The size of the informal economy is another rough indicator of economic insecurity in developing societies. One must be careful in generalizing about this sector since it can include everything from highly-paid consultants and information technology workers to the underemployed struggling to earn a meager survival as shoeshine boys, street vendors, sweatshop employees, sex workers, and petty criminals. Nevertheless, the vast majority of workers in the informal economy are poor and their jobs are insecure because their employment is not recognized or protected under any legal framework. Though the informal economy is a source of additional jobs, most of them are low paid and subject to arbitrary dismissal without any legal recourse. Many in the informal economy work in conditions that are not subject to safety and health protections, and in most cases, they are without unions or other forms of collective representation. Non-agricultural self-employment is one of the best indicators of the size of the informal sector. As Figure 15 documents, it has grown substantially in virtually all regions of the developing world. In Africa, 90% of new employment was in the informal economy.[166] In Latin America in the

The vast majority of workers in the informal economy are poor and their jobs are insecure because their employment is not recognized or protected under any legal framework.

Figure 15: Non-Agricultural Self-Employment in Developing Countries: Average Percent of Total Non-Agricultural Employment, 1980-1989 and 1990-2000



	World	Africa	Latin America	Asia
1980-1990	26	44	29	26
1990-2000	32	48	44	32

Source: World Commission on the Social Dimension of Globalization, *A Fair Globalization* (Geneva: ILO, 2004), 41.

1980s and 1990s, 80% of new jobs created were in the informal sector.[167]

Non-agricultural self-employment is one of the best indicators of the size of the informal sector… it has grown substantially in virtually all regions of the developing world.

The trend toward greater unemployment and expansion of the informal economy has particularly troublesome consequences for economic insecurity at a time when social welfare spending in developing countries is on the decline. From 1972–1974, central government welfare spending in 52 developing countries averaged 3.2% of their GDP. In 1994–1995, welfare spending in these countries dropped to 2.5%.[168] The pressures that limit developing countries' capacity to fund social welfare programs raise serious concerns about their capacity to relieve economic insecurity. Since the informal economy remains outside of the state's tax base, its growth diminishes the share of the economy that provides government revenue. As its share of the revenue base diminishes, the state's capacity to provide for social protection also declines relative to the needs of the workforce. At a time when increasing global economic integration makes the provision of social protection through programs like unemployment compensation, retraining, social security, etc. more vital than ever, states in many developing societies may be less able to meet the needs of the men and women in their workforce.

V. Confronting Social Difference: Marginalization, Conflict, or Recognition?

The social diversity of developing countries creates a formidable challenge as they try to consolidate their democracies. In contrast to most advanced industrial countries that became nations before they democratized, many developing countries must democratize as they build their nations. This challenge is made more formidable by the fact that the boundaries of post-colonial countries were fashioned more to the convenience of colonial administrators than reflecting the demographic realities of developing societies.

When social difference overlaps with hierarchies of power, it can lead to discrimination, marginalization, and conflict. In the colonies of Latin America for instance, countries gained their independence relatively early, but European settlers dominated the early post-colonial political regimes and they marginalized indigenous peoples. In some cases, they forced indigenous peoples to perform cheap labor. In other cases, they relegated them to remote areas and ignored them. In still other cases, they repressed them as a security threat.[169] Independence occurred much later in Africa, the

The Myth of the "Primordial" Ethnic Conflict

Political scientists' understanding of the causes of ethnic conflict has made considerable progress in the last 15 years. Despite its demonstrable flaws, one explanation that has been remarkably influential among policy-makers and the public is that the violent conflict between religious and ethnic groups is a consequence of ancient hatreds, anchored in a primordial past.[170] "Primordial" is a term that evokes the "primitive," the "tribal," and the "fanatic." This point of view understates the importance of immediate circumstances in provoking conflicts, especially the ruthless strategies of domestic political leaders and foreign intervention.[171] It suggests that these conflicts are a fixed condition that is not amenable to resolution.

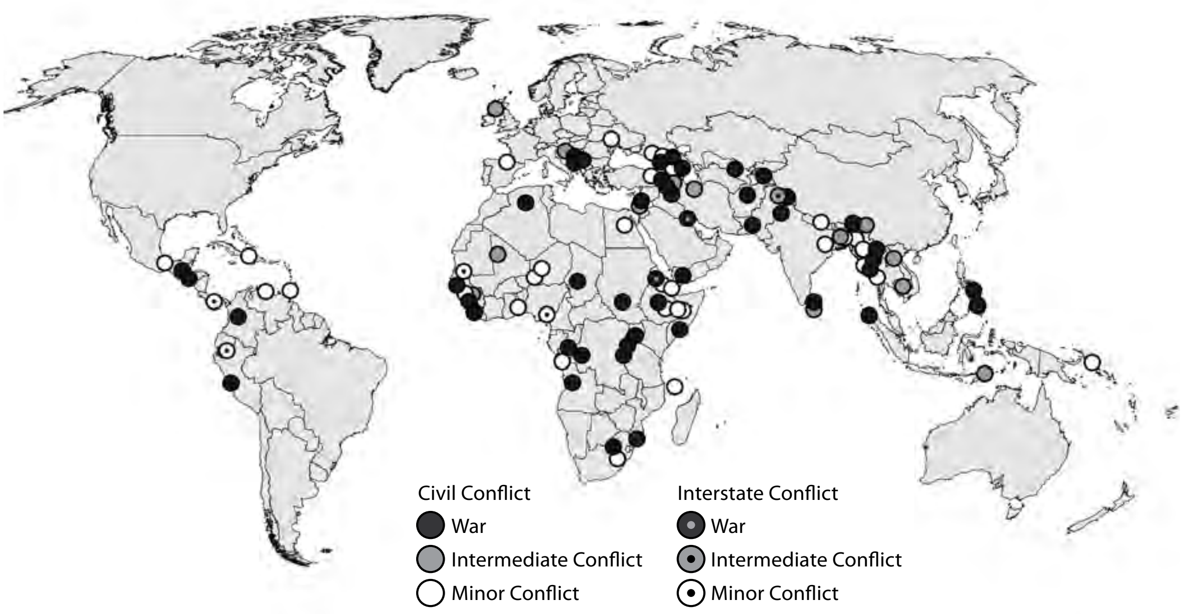
While it is true that violence often arises in societies with ethnic differences, peaceful relations are in fact more characteristic of societies with ethnic diversity.[172] Social relations among ethnic groups can be organized in different ways. Some are conducive to the outbreak of violence while others are better able to accommodate differences.[173] It makes a big difference whether the government is strong and intent on preventing conflict or weak and controlled by leaders who intend to stir up ethnic violence for their political advantage. In its assumption that people simply reflect the identities and values attributed to broader social groups, the primordial view of ethnic conflict underestimates the contingency of group identities and the scope of an individual agency to create alternative identities. In sum, explaining conflict in terms of primordial antagonisms portrays ethnic cleavages as objective, unchanging, and impervious to political interventions when in fact they are subjective, contingent, and greatly affected by contemporary politics.[174]

Middle East, South, and Southeast Asia. In these regions, the predominant lines of tension and conflict were between different ethnic groups as they competed for political power.

Democracy and Violence. The presence and quality of democracy is a key factor affecting conflict between ethnic and religious groups. As developments in Iraq after the American intervention in 2003 demonstrate, holding democratic elections is not sufficient to prevent the outbreak of conflict. Indeed, emerging democracies tend to see higher levels of conflict than authoritarian regimes.[175] Authoritarian regimes are no more even-handed with respect to ethnic, class, and gender differences, but they use their monopoly of coercive and administrative power to repress dissent. The weakening of state authority and the consequent increase in political instability and uncertainty that are often associated with the initial phases of democratic transitions are positively related to the outbreak of violent conflict. According to one study, the odds of the onset of civil war in a given year are estimated to increase by 67% if there was instability in the governing arrangements in the previous three years.[176] The rapid social and political change that accompanies democratization may lead to a gap between the capacity of fledgling political institutions and the demands of a highly mobilized public.[177] In these circumstances, politicians often mobilize popular support by constructing divisive identities that exploit insecurities of different social groups.[178]

Though it is widely felt that there has been an upsurge in civil strife in the world with the end of the Cold War, social scientists agree that the number of existing violent

Figure 16: Armed Conflicts, 1990-2000*



*The map shows the general location of the civil and interstate conflicts that occurred from 1990 to 2000, and the maximum intensity that each achieved in that period. A minor conflict claimed at least 25 battle-related deaths per year, but fewer than 1,000 deaths during its entire course. An intermediate conflict accumulated at least 1,000 deaths, with fewer than 1,000 dying each year. War resulted in at least 1,000 deaths during a single year. Source: http://www.populationaction.org/resources/publications/securitydemographic/historical.html accessed on July 15, 2006.

conflicts peaked in 1992 and has since declined.[179] There have been important changes in the nature of violent conflict around the world. Conflict today occurs more often within states than between them. In fact, 95% of all armed conflict is now within countries.[180] At the same time, violent conflict has been increasingly concentrated in poor countries. A recent World Bank Study estimated that low-income countries are 15 times more likely to experience internal conflicts than richer countries.[181]

Low-income countries are 15 times more likely to experience internal conflicts than richer countries.

While armed conflict between countries and ethnic groups is on the decline, violent crime is a growing problem in developing societies. A significant positive relationship has been shown to exist between income inequality and violent crime, even after controlling for other causes of crime.[182] While the lives of the wealthy in developing societies are increasingly protected by private security guards and gated communities, a 1999–2000 World Bank survey of people in developing countries found that, in the minds of the poor, physical insecurity has become a more serious problem than poverty.[183]

A significant positive relationship has been shown to exist between income inequality and violent crime...

Democratic political systems offer the promise of alleviating the problems of discrimination, marginalization, and violent conflict between social groups. Citizenship in democracy provides equal rights to all, but historically marginalized and discriminated peoples do not necessarily participate in politics on a level playing field. Dominant groups often exercise a preponderant influence in shaping the rules of the game. Governments may lack the capacity or the will to enforce equal rights for everyone.[184] Nonetheless, democratic politics encourages leaders and participants to articulate distinctive identities and interests that challenge democratic political systems to live up to their promise of equitable inclusion. Liberal democracy also provides associational space for groups to organize in an attempt to realize these interests.

Marginalization and the Post-Liberal Challenge. The political demands of social groups that have historically suffered discrimination and marginalization present democratic political systems with what Deborah Yashar has called the "postliberal challenge."[185] From its beginning in the West at the end of the 18th century, the spread of modern, liberal democracy was based on the premise that political communities were culturally homogenous. States should be administratively centralized, and citizenship should be based on legal systems that extend uniform rights and obligations to all individual citizens. In the process, social and cultural differences were ignored, or worse, undermined in the name of assimilation. Equality meant sameness.[186] Yet as, Alfred Stepan notes, "In multinational polities . . . some groups may be able to participate fully as individual citizens only if they acquire, as a group, the right to have schooling, mass media, and religious or even legal structures that correspond to their language and culture."[187]

Across the developing world, the demands of marginalized citizens for group rights[188] have challenged liberal premises. A number of developing countries have attempted to accommodate social diversity by recognizing social difference. India's legal system supplements uniform citizens' rights with a pluralistic approach that offers different systems of personal law to accommodate different religious groups. In Latin America, the constitutions of several countries—including Colombia (1991), Peru (1993), Bolivia (1994), and Ecuador (1998)—have recently included provisions to recognize indigenous laws and norms, and authority systems.[189] Though promising departures, these measures sometimes are of limited substance. Countries attempting to accommodate social diversity by recognizing social difference must chart their own course by striking a distinctive balance between recognizing difference and support for universal individual rights. Only then can they ensure that the recognition of difference does not enable some members to dominate others in the group and that such recognition is not used as a ploy to obscure social and political inequities between groups.[190]

The efforts of the international community to promote universal human rights and combat the most outrageous forms of discrimination and civil violence have intensified since the end of the Cold War. The U.S., U.N., and numerous NGOs are promoting truth commissions and criminal tribunals as tools with which to further the goals of conflict resolution, human rights, and democratic change. To date, scholars have given these institutions mixed reviews. Recent studies have found that countries with truth commissions are more likely to achieve political stability, improve human rights, and enhance the quality of their democracy.[191] However, several other studies have found that without widespread political support, transitional justice investigations may be destabilizing.[192] Any reconciliation process must attempt to resolve the tension between the need for judgment and the need for political stability. Strategies to accommodate potential spoilers—usually pragmatic compromises—often involve concessions that grant power to those who have a strong interest in obstructing change toward greater democracy.[193] Transitional justice institutions may also generate a nationalist backlash in countries where they are not perceived as legitimate.[194]

Truth commissions in several countries ... identified economic inequality and political exclusion as major factors contributing to cycles of political violence and repression. Scholars have found that absolute poverty and inequality are correlated with high levels of repression.

Persistent inequality at the domestic and international levels presents formidable challenges to the goals of these institutions. Truth commissions in several countries, including Guatemala, South Africa, Peru, and Ghana, identified economic inequality and political exclusion as major factors contributing to cycles of political violence and repression.[195] Scholars have found that absolute poverty and inequality are correlated with high levels of repression.[196] These findings suggest that persistent structural inequalities are likely to undermine the contributions of human rights investigations to reconciliation in the long term. For example, the South African Truth and Reconciliation Commission achieved notable success in promoting domestic reconciliation,[197] and it is widely viewed as a model for newly democratizing countries. Despite these successes, a 2004 survey found that the number of black South Africans reporting historical land grievances rose between 2003 and 2004.[198] If this trend continues, it is likely to pose problems for South Africa's reconciliation process over the long term. International inequality also affects the agenda of human rights organizations and institutions. It is notable, for example, that transitional justice institutions hold local leaders in developing countries accountable for past human rights violations, but have generally not investigated the role of foreign interventions by powerful states.[199]

VI. Conflict and Economic Development

The incidence of war and civil strife is much greater in the world's 58 poorest countries than in other countries. According to one study 73% of the population in these countries have recently experienced a civil war. This violence reduced their average per capita growth rate by 2.3% per year.[200] Violent conflict decimates the economic infrastructure, disrupts production, and destroys productive facilities. The lack of security discourages investment, both foreign and domestic. Indeed, as a result of conflict, investment is redistributed from the production of goods and services to the production of violence. Entrepreneurial skills are diverted to increasing destruction rather than production. Political instability prevents long-term planning in both the public and private sector. Youth are killed in wars rather than educated in schools. Violence makes the collective action necessary to provide public goods difficult if not impossible to accomplish. Afghanistan, Iraq, and Haiti are but a few examples of societies whose economies have been devastated by violent conflicts.

The incidence of war and civil strife is much greater in the world's 58 poorest countries than in other countries.

A more subtle issue is whether "latent conflict"—often in the form of ethnic rivalries—is detrimental to economic development. There are many reasons to think that this might be the case. Theoretical models suggest that ethnically heterogeneous societies may: engage in more rent-seeking,[201] implement inefficient forms of redistribution,[202] fight "wars of attrition" that delay needed economic reforms,[203] and have more difficulties reaching cooperative agreements to provide public goods.[204] Initial analysis of empirical evidence indicated that ethnically and religiously diverse societies had more corruption[205] and were associated with underdeveloped financial systems, distorted foreign exchange markets, low rates of education, and insufficient investment in infrastructure that in turn contributed to low levels of development.[206] Indeed, some scholars concluded that "the extraordinarily high levels of ethnic diversity in Africa" made an important contribution to "Africa's growth tragedy."[207]

Recent analysis offers a more sophisticated understanding of the links between ethnically diverse societies and economic development. These studies found that the nature of institutions was an important variable affecting the impact of social divisions. In attempting to explain the economic slowdown of so many developing countries after 1975, Dani Rodrik found that an important factor was the manner in which developing countries managed economic shocks. He observed, “When social divisions run deep and the institutions of conflict management are weak, the economic costs of exogenous shocks—such as deterioration in the terms of trade—are magnified by the distributional conflicts that are triggered.”[208] However, economic performance is much better when variables for economic inequality and ethnic diversity are combined with high quality governmental institutions—based on evaluations for the rule of law, bureaucratic quality, corruption, expropriation risk, and governmental repudiation of contracts or democracy based with strong political rights and civil liberties. Rodrik concludes, “The evidence is strongly suggestive that countries with greater democracy, more participatory institutions, stronger rule of law, higher quality governmental institutions, and higher levels of social insurance have experienced less economic disruption after the mid-70s.”[209] Using a similar index for institutional quality, William Easterly also found that “sound institutional arrangements” curtail the negative impact of ethnic diversity on economic development, eliminating it altogether at the highest levels of institutional development.[210]

In the case of ethnic divisions, as in the case of economic inequality, the impact of social relations is complex and contingent. In both instances, the nature of the institutional context plays a crucial role in shaping the outcomes of social relations. Understanding the consequences of variation in institutions and social relations is essential to grasping the consequences of economic inequality and social difference.

VII. Conclusion: Overcoming Persistent Inequalities

Inequality enables powerful actors to shape political and economic institutions to reinforce their power at the expense of others and the broader social welfare. The process works at international and domestic levels. Developed countries have shaped the politics of global economic governance in ways that have favored their interests to the detriment of poor countries. Wealthy countries maintain tariffs that discriminate against developing countries and many of the poorest people in the world. Liberalization of international labor markets is barely on the agenda even though reducing restrictions on the market would benefit rich and poor countries alike. Efforts to promote capital account liberalization produced a series of financial crises during the 1990s because they failed to take into account the distinctive conditions in developing countries, especially the low level of development of their regulatory institutions. The WTO agreement on trade-related intellectual property rights (TRIPS) and the even more restrictive provisions of bilateral and regional trade agreements impede poor countries’ access to life-saving medicines and prevents them from reverse engineering and copying technologies, a strategy widely used by today's wealthy countries to catch up to the earlier generation of global leaders. More generally, the WTO's "single undertaking" approach—obliging countries to abide by the same restrictions on developmental policy regardless of their level of development —has greatly restricted poor countries' ability to pursue policies appropriate for their particular circumstances.

Avoiding excessive levels of global inequality is a more important issue today than ever before. Improvements in transportation and communications technologies make differences in standards of living increasingly more visible to people throughout the world. Continued technological change will only increase the salience of global inequalities. At the same time that globalization brings people into closer contact, it makes them more interdependent. At a time when high levels of inequality call into question the legitimacy of the international institutions, global economic governance requires increasing cooperation of all countries, wealthy and poor. High levels of global inequality threaten to undermine the cooperation needed to maximize the benefits of global growth.

Persistently elevated levels of inequalities within developing countries have also played an important role in shaping their development. As inequality increases, the impact of economic growth on poverty alleviation declines. Higher levels of inequality are associated with greater levels of violent crime. High levels of inequality diminish the poor's access to public services. They erode the poor's property rights and undermine the equitable distribution of the benefits of financial markets. Domestic inequality is an important explanation for why inefficient institutions persist since it empowers elites to avoid changes that could undermine their position. In many developing countries, politicians have responded to the incentives created by global markets by implementing a range of reforms designed to expand the role of markets, increase efficiency, reduce inflation, and promote growth. However, in numerous cases they have implemented these reforms in a way that accommodated elite interests, protected their core coalition, and attempted to attract powerful new coalition partners. All too often, the outcome has been increased inequality and reduced economic security.

Though the spread of democracy among developing countries has coincided with increased domestic inequalities, this coincidence does not imply causation. Democracy has complex consequences for the diverse countries of the developing world, and the proliferation of democracy in the last 30 years has been accompanied by diversification of democratic experience. Democratic politics offers the promise of better accommodation of social difference, an important goal for the diverse societies of the developing world. By using the greater social spaces inherent in more democratic political systems, even marginal groups have been able to develop organizational networks that facilitate their political mobilization and enhance their capacity to make claims on state authorities. One consequence has been the articulation of the "postliberal challenge" in which heretofore marginalized groups attempt to gain recognition for their different status by augmenting liberal individual rights with group rights and by pressuring for a more pluralistic approach to legal systems and political institutions.

Recent studies suggest that the problems caused by excessive inequality may be alleviated by improving the quality of democracy —in particular, by increasing voter information to enhance the accountability of political leadership,[211] by taking measures to expand the share of the electorate that can effectively hold political leaders accountable,[212] by extending greater political rights to citizens,[213] and by implementing policies that enhance the economic security and human capital of people.[214] If excessive inequality may lead to the persistence of inefficient institutions, there is evidence that participatory democracy facilitates building good institutions by effectively processing local knowledge to construct institutions that contribute to higher quality economic growth—growth that is less volatile, better able to adjust to shocks, and which produces superior distributional outcomes.[215]

One consequence of the inequalities that pervade the international system is that the analytical categories and best practices of the powerful are imposed on the poor. "For the first time in history," writes Adam Przeworski, "Capitalism is being adopted as an application of a doctrine, rather than evolving as a historical process of trial and error."[216] The same could be said of democracy. Thinking about economic and political development in developing countries has taken considerable strides since Przeworski et al. made this observation some 12 years ago, but the "imperialism of categories" that is a consequence of power asymmetries remains a danger.[217] Two of those categories, capitalism and democracy, are often offered as a universal prescription without reference to the fact that their sequence and form have differed in the emergence of the older liberal democracies and will differ among new and emerging democracies. Both democracy and capitalism are more likely to flourish if the peoples of developing areas can grow such institutions in forms that reflect their histories and cultures. Insofar as developed countries are involved in the process of change in developing ones, they should be aware of the distinctiveness of conditions in developing countries. Playing a positive role requires listening to and engaging social and political goals as formulated by actors within developing countries and then finding ways to assist the people in these societies to implement their own solutions.

Both democracy and capitalism are more likely to flourish if the peoples of developing areas can grow institutions in forms that reflect their histories and cultures.

Bibliographic Essay

The following essay is intended to suggest sources for those who are interested in investigating issues of difference, inequality, and developing societies. We have attempted to select readings that provocatively highlight important issues with rigorous analysis while still being accessible to a general reading audience. The discussion below is not meant to be comprehensive, but is rather meant to be a gateway to many of the most important issues.

Globalization and Global Inequalities.

A good place to begin reading about globalization is Martin Wolf, *Why Globalization Works* (New Haven: Yale University Press, 2004), a book written by one of the world's most influential economic journalists who is a passionate defender of the benefits of internationalizing markets but who is honest enough to consider the problems created by global inequality. Joseph E. Stiglitz's *Making Globalization Work* (New York: W.W. Norton, 2006) provides a critical study of inequality on globalization. For an insightful view of recent thinking about economic development that highlights the importance of local knowledge and democracy as a means of building good institutions see Dani Rodrik, *One Economics Many Recipes: Globalization, Institutions, and Economic Growth.* (Princeton: Princeton University Press, 2007). Paul Collier's *The Bottom Billion: Why the Poorest Countries Are Failing and What Can Be Done About It* (Oxford: Oxford University Press, 2007) offers a accessible treatment of the problems of the world's poorest countries and includes provocative suggestions for remedies. Branko Milanovic's *Worlds Apart: Measuring International and Global Inequality* (Princeton University Press, 2005) provides clear explanations of statistical measures of global inequality. He reviews a range of statistical controversies and draws some persuasive conclusions about the scope of global inequality. Francis Bourguignon and Christian Morrisson provide an accessible and authoritative discussion of the historical experience of globalization and inequality in their essay "Inequality among World Citizens: 1820–1992," *The American Economic Review* 92:4 (September 2002), 727–744. Articles by Nancy Brune and Geoffrey Garrett, "The Globalization Rorschach Test: International Economic Integration, Inequality, and the Role of Government," *Annual Review of Political Science* (Palo Alto: Annual Reviews, 2005), 399-423, and Geoffrey Garrett, "Globalization's Missing Middle," *Foreign Affairs* 83:6 (November/December 2004) are very readable introductions to issues of globalization and inequality.

Other resources include: Bob Sutcliffe, "World Inequality and Globalization," *Oxford Review of Economic Policy* 20:1 (2004) 15-37, which offers on overview of measuring globalization that is more brief and almost as clear as Milanovic's *Worlds Apart*; Glenn Firebaugh's *The New Geography of Global Income Inequality* (Cambridge:

Harvard University Press, 2003) offers an optimistic view of the impact of globalization on inequality from a sociological perspective. Robert Hunter Wade, in his essay, "Is Globalization Reducing Poverty and Inequality? *World Development* 32:4 (April 2004), 567–589, critiques mainstream views of the impact of globalization on global inequality and poverty inequality. Nancy Birdsall, Dani Rodrik, and Arvind Subramanian, "How to Help Poor Countries," *Foreign Affairs* 84:4 (July/August 2005), 136-152, offer a brief and provocative discussion of solutions to the problems of globalization, inequality, and poverty. Gavin Kitching's *Seeking Social Justice Through Globalization: Escaping a Nationalist Perspective*. (University Park: Pennsylvania State University Press, 2001) is well-written and provocative.

Inequality, Difference and the Politics of Global Markets.

Robert Gilpin's *The Challenge of Global Capitalism*. (Princeton: Princeton University Press, 2001) provides a magisterial overview of post-World War II international political economy that highlights how globalization is a process structured by international institutions and treaties that are shaped by global politics and therefore inequalities. Jeffry Friedan's *Global Capitalism: Its Fall and Rise in the Twentieth Century* (New York: WW Norton, 2006) examines important domestic and international dynamics of economic development since 1896. Daniel W. Drezner's *All Politics is Global* (Princeton, Princeton University Press, 2007) provides an interesting account of the degree to which great powers are able to have their own way in a range of international domains. For a brief essay that highlights many international inequality issues, see Nancy Birdsall, "Asymmetric Globalization: Global Markets Require Good Politics," *Brookings Review* (Spring 2003). Many political scientists highlight the importance of power inequalities in shaping the development of global institutions. Stephen Krasner offers an explanation for why considerations of power are important even when efficiency is also a concern in his essay "Global Communications and National Power: Life on the Pareto Frontier," *World Politics*, 43:3 (April 1991), 336–366. Lloyd Gruber provides an interesting discussion of how powerful countries get less powerful countries to agree to new institutions that favor the powerful. See his article "Power Politics and the Free Trade Bandwagon," *Comparative Political Studies* 34:7 (September 2001), 703–741 or his book *Ruling the World: Power Politics and the Rise of Supranational Institutions* (Princeton, NJ: Princeton, 2000). Economic historian Ha Joon Chang elaborates the contention that powerful countries attempt to prevent developing countries from using the very policies that they employed to promote their development in *Kicking Away the Ladder: Development Strategy in Historical Perspective* (London: Anthem Press, 2002).

International Trade and the WTO. John H. Barton, Judith L. Goldstein, Timothy E. Josling and Richard Steinberg, *The Evolution of the Trade Regime* (Princeton: Princeton University Press, 2006) provide a theoretically informed overview of the global trade regime that raises issues of inequality. For a plan to make the global trade regime more equitable see Joseph E. Stiglitz and Andrew Charlton, *Fair Trade for All: How Trade Can*

Promote Development (New York: Oxford University Press, 2005). Susan K. Sell analyzes the role of multinational corporations and the United States in the development of an international regime for intellectual property rights in *Private Power, Public Law: The Globalization of Intellectual Property Rights* (Cambridge: Cambridge University Press, 2003). Keith C. Shadlen provides a nuanced view of the issue of intellectual property rights and public health concerns in developing countries in "Patents and Pills, Power and Procedure: The North-South Politics of Public Health in the WTO," in *Studies in Comparative International Development* 39:3 (Fall 2004), 76–108.

The Regime for International Finance. In addition to Gilpin (*The Challenge of Global Capitalism*, 2001), background on the development of the regime for international finance is available from Eric Helleiner, *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s* (Ithaca, NY: Cornell University Press, 1994); and Barry Eichengreen, *Globalizing Capital: A History of the International Monetary System* (Princeton: Princeton University Press, 1998). Eichengreen also provides analysis of international financial crises in *Capital Flows and Crises* (Boston: MIT Press, 2004). Leslie Elliott Armijo provides a clear introduction to the different impact of various forms of international finance in "Mixed Blessing: Expectations about Foreign Capital and Democracy in Emerging Markets," in L.E. Armijo, ed., *Financial Globalization and Democracy in Emerging Markets* (New York: Palgrave/St. Martin's, 1999). Layna Mosley discusses why international financial markets create more constraints for developing than developed countries in her book *Global Capital and National Governments* (Cambridge: Cambridge University Press, 2003). In "The Capital Myth," *Foreign Affairs* 77:3 (May/June 1998) 7-12, Jagdish Bhagwati briefly highlights the power of the "Wall Street Treasury Complex" and then explains why countries must be more careful when liberalizing financial markets than when liberalizing trade markets. Economists Eswar S. Prasad, Kenneth Rogoff, Shang-Jin Wei and M. Ayhan Kose provide an authoritative analysis of how financial globalization has contributed to greater economic volatility for developing countries in "Effects of Financial Globalization on Developing Countries: Some Empirical Evidence" *IMF Occasional Paper No. 220* (Washington, D.C.: International Monetary Fund, 2003).

Domestic Inequality and Economic Development.

The World Bank's *World Development Report 2006: Equity and Development* (Washington, D.C.: International Bank for Reconstruction and Development, 2005) explores a number of ways that inequality affects development in poor countries. Giovanni Andrea Cornia, ed., *Inequality, Growth, and Poverty in an Era of Liberalization and Globalization* (Oxford: Oxford University Press, 2004) also provides a valuable discussion of inequality and development.

Colonialism played an important role in shaping creating inequalities and shaping the manner in which they affected economic and political institutions and subsequent economic development in developing countries. For analysis explaining how colonizers created varying economic and political institutions that profoundly influenced inequality and economic progress in developing countries, see Stanley L. Engerman and Kenneth L. Sokoloff, "Factor Endowments, Inequality and Paths of Development among New World Economies," *Economia* 3 (2002), 41–109; and Daron Acemoglu, Simon Johnson, and James Robinson, "Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution," *Quarterly Journal of Economics* 118 (2002), 1231–1294. A provocative essay that highlights the role of politics and the state in shaping economic development and suggests the importance of inequality is Pranab Bardhan, "History, Institutions, and Underdevelopment" in his book *Scarcity, Conflicts and Cooperation: Essays in the Political and Institutional Economics of Development* (Cambridge: MIT Press, 2004), 1–26.

Developing an appreciation for the diverse experiences of global regions helps to promote a more nuanced understanding of the impact of inequality on development. Jeffrey Herbst sets the historical context for Africa by demonstrating the impact of the challenges of asserting ruling authority over sparsely-populated territories in *States and Power in Africa: Comparative Lessons in Authority and Control* (Princeton: Princeton, University Press, 2000) especially pages 1–36. Nicholas van de Walle, in *African Economies and the Politics of Permanent Crisis, 1979–1999* (Cambridge: Cambridge University Press, 2001), highlights the importance of "neo-patrimonalism" in state-society relations. In contrast, Giovanni Arrighi, "The African Crisis: World Systemic and Regional Aspects," *New Left Review* 15 (May/June 2002), 5–36, draws attention to international factors.

One of the best overviews of inequality and development in Latin America can be found in David De Ferranti, Guillermo E. Perry, Francisco H.G. Ferreira and Michael Walton, *Inequality in Latin America: Breaking with History?* (Washington, D.C.: The World Bank, 2004). Scholars of Latin America like Judith Teichman "Merging the Modern and the Traditional: Market Reform in Chile and Argentina," *Comparative Politics* 37:1(October 2004), 23–40; and Miguel Centeno and Patricio Silva in their introductory essay to *The Politics of Expertise in Latin America* (New York: St. Martin's Press, 1998) have pointed out the role of technocrats. Others have underlined the importance of "neo-populism." See for instance, Taylor C. Boas, "Television and Neopopulism in Latin America: Media Effects in Brazil and Peru," *Latin American Research Review* 40:2 (June 2005), 27–50; and Edward Gibson, "The populist road to market reform: Policy and electoral coalitions in Mexico and Argentina, " *World Politics* 49:3 (April 1997), 339–370. Still other scholars of Latin American politics have drawn attention to the increasingly potent role of business in politics, Hector E. Schamis, "Distributional Coalitions and the Politics of Economic Reform in Latin America," *World Politics* 51:2 (1999), 236–268.

Two of Asia's largest and fastest-growing economies have also experienced increasing inequality. Atul Kohli documents the growing power of Indian business in his essays "Politics of Economic Growth in India, 1980–2005 Part I: The 1980s," *Economic and Political Weekly* (April 1, 2006), 1251–1259; and "Politics of Economic

Growth in India, 1980–2005, Part II: The 1990s and Beyond," *Economic and Political Weekly* (April 8, 2006), 1361–1370 also notes the growing political importance of business elites. Scholars of China have highlighted how marketization and decollectivization has contributed to rising inequality by curtailing the welfare state. See for instance, Dorothy J. Solinger, "Path Dependency Reexamined: Chinese Welfare Policy in Transition to Unemployment," *Comparative Politics* 38:1 (October 2005), 83–101; and Mary Gallagher, *Contagious Capitalism* (Princeton: Princeton University Press, 2005).

Conflict and Economic Development

For a variety of reasons, developing countries are remarkably diverse both in terms of differences within their own societies and in regard to the range of experience from society to society. Diversity within developing societies can result in marginalization of some groups and in some cases it contributes to violent conflict. Deborah J. Yashar's *Contesting Citizenship in Latin America* (Cambridge: Cambridge University Press, 2005) provides a study of the marginalization of indigenous groups in Latin America and how some democracies have instituted reforms to alleviate marginalization. In their article "Inequality and Violent Crime," *Journal of Law and Economics* 45 (April 2002), 1–40, Pablo Fajnzylber, Daniel Lederman, and Norman Loayza find that inequality is positively associated with the outbreak of violent crime. Hans Schmitz and Kathryn Sikkink find that inequality is associated with greater repression in "International Human Rights." In Walter Carsnales, Thomas Risse, and Beth Simmons, eds., *Handbook of International Relations*, (London: Sage, 2005), 517–537.

Is it more difficult for socially heterogeneous and divided societies to achieve high levels of economic development? Dani Rodrik, "Where Did All the Growth Go? External Shocks, Social Conflict, and Growth Collapses," *Journal of Economic Growth* 4 (December 1999), 385–412; and William Easterly, "Can Institutions Resolve Ethnic Conflict?" *Economic Development and Cultural Change* 49:4 (2001), 687–706 find that it is only where political institutions are weak and unable to accommodate conflict between groups that ethnic divisions diminish growth.

For the increasing realization of the importance of accommodating difference in developing strategies to promote economic development, see Dani Rodrik, "Goodbye Washington Consensus, Hello Washington Confusion? A Review of the World Bank's *Economic Growth in the 1990s: Learning from a Decade of Reform*," *Journal of Economic Literature* 49 (December 2006), 973–987; World Bank, *Economic Growth in the 1990s: Learning from a Decade of Reform* (Washington, D.C.: World Bank, 2005); and Joseph Stiglitz, *Globalization and Its Discontents* (New York: W.W. Norton, 2002). ■

Endnotes

1. Ian Goldin and Kenneth Reinert, *Globalization for Development: Trade, Finance, Aid, Migration, and Policy* (Washington, D.C.: World Bank, 2006), 144.
2. The authors of the *World Development Report 2006: Equity and Development* (Washington, DC: International Bank for Reconstruction and Development, 2005) recalculate Bourguignon and Morrisson's data to show a slight decline in global inequality from 1980 to 1992 (p. 7). In *Worlds Apart: Measuring International and Global Inequality* (Princeton: Princeton University Press, 2005, 108), Branko Milanovic finds that after peaking at 65.3 in 1993, the Gini index of global inequality declined to 64.1 in 1998 before increasing to 65.7 in 2002. Also see Branko Milanovic, "Where in the world are you?" *World Bank Policy Research Working Paper 4493* (Washington, DC: World Bank, 2008, 13). In a more recent paper, Milanovic notes that incorporating the revised estimates of purchasing power parity ratios made by the *2005 International Comparison Program* increases the Gini coefficient to 69.9. He concludes, "This means that global inequality is significantly greater than inequality found in any individual country in the world…" Both papers are available from http://web.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/EXTPROGRAMS/EXTPOVRES/EXTDECINEQ/0,,contentMDK:20553509~menuPK:1359571~pagePK:64168445~piPK:64168309~theSitePK:1149316,00.html> (accessed May 25, 2008).
3. The trend of inequality after 1980 is controversial. For reviews see, Branko Milanovic, *Worlds Apart*, 101-127, and Robert Hunter Wade, "Is Globalization Reducing Poverty and Inequality?" *World Development* 32:4 (April 2004), 567–589.
4. In 1960, the United States had a per capita income of PPP$9895. Ethiopia, the world's poorest country at the time, had a per capita income of PPP$257. In 1990, the United States had a per capita income of PPP$18,054 compared to Chad, the world's poorest country with a per capita income of PPP$399. By 2005, the United States' PPP gross national income increased to $41,950. The PPP gross national income of Malawi was only $650. Source: Lant Pritchett, "Divergence, Big Time," *Journal of Economic Perspectives* 11:3 (Summer 1997), 11; and World Bank, *World Development Report 2007: Development and the Next Generation* (Washington, D.C.: International Bank for Reconstruction and Development/World Bank, 2006), 288-289.
5. Peter Edward, "Examining Inequality: Who Really Benefits from Global Growth?" *World Development* 34:10 (October 2006), 1667-1695.
6. Bob Sutcliffe, "World Inequality and Globalization," *Oxford Review of Economic Policy* 20:1 (2004), 28.
7. Using PPP valuations, the Gini for wealth declines to 0.802. See James B. Davies, Susanna Sandstrom, Anthony Shorrocks and Edward N. Wolff, "World Distribution of Wealth," (Helsinki: World Institute for Development Economics Research of the United Nations University, 2006), 29.
8. *Ibid*., 29 and Table 8.
9. World Bank, *World Development Report 2007*, 288-289.
10. United Nations, *World Economic Situation and Prospects* (New York: United Nations, 2007), 125-127.
11. Shaohua Chen and Martin Ravallion, "How Have the World's Poorest Fared Since the Early 1980s?" *World Bank Research Observer* 19:2 (2004), 153.
12. World Commission on the Social Dimension of Globalization, *A Fair Globalization: Creating Opportunities for All* (Geneva: International Labour Organization, 2004), 25.
13. South, East, and South-East Asia net private bond flows and bank loans were a much smaller share of the flows to developing countries, amounting to less than 13% and 4% respectively. See World Bank, *Global Development Finance 2007: Globalization of Corporate Finance in Developing Countries* (Washington, D.C.: World Bank, 2007), 42-43.
14. United Nations, *World Economic Situation and Prospects*, 63; United Nations Conference on Trade and Development, *World Investment Report 2006* (New York: United Nations, 2006), 7; World Bank, *World Development Finance 2007.*
15. Augusto de la Torre and Sergio L. Schmukler, *Emerging Capital Markets and Globalization: Latin American Experience,* (Washington, D.C.: World Bank/Stanford University Press, 2007), 45-50.
16. Joseph E. Stiglitz and Andrew Charlton, *Fair Trade for All: How Trade Can Promote Development* (New York: Oxford University Press, 2005), 94.
17. UNCTAD, *Trade and Development Report, 2006* (New York: United Nations, 2006), xxiv.
18. *Ibid*, 10.

19. *Ibid*, 112.

20. These data are measured in terms of purchasing power parity; see *OECD Employment Outlook 2007* (Paris: OECD, 2007), 24. The data on the BRIC's contribution to world growth are calculated from Edwin M. Truman, "Implications of Structural Change in the Global Economy for its Management," paper delivered at the World Economic Forum Adelaide, Australia, March 18-19 2006, Copyright Institute for International Economics. Available from: http://www.iie.com/publications/papers/truman0306.pdf (accessed July 3, 2007).

21. Dominic Wilson and Roopa Purushothaman, "Dreaming with BRICS: Path to 2050," Goldman Sachs Financial Workbench, *Global Economics Paper No. 99.* Available at: http://www2.goldmansachs.com/insight/research/reports/99.pdf (accessed July 3, 2007).

22. UNCTAD, *Trade and Development Report, 2006*, xix. Paul Collier notes that, due to restrictive provisions involving rules of orgin and short eligibility periods for benefits, these agreements provide limited benefits to the poorest countries. Paul Collier, *The Bottom Billion: Why the Poorest Countries Are Failing and What Can Be Done About It* (Oxford: Oxford University Press, 2007), 168-170.

23. European Union Center of North Carolina, "Rise of the BRICs: Implications for Transatlantic Relations," *EU Briefings*, (May 2007). Accessed at http://www.unc.edu/depts/europe/business_media/businessbriefs/Brief0705-BRICs.pdf.

24. Calculated from *Ibid*., 145.

25. *Ibid.,* ix.

26. *Ibid*., 126.

27. Economic Commission for Africa, *Economic Report on Africa 2007: Accelerating Africa's Development Through Diversification* (Addis Ababa: United Nations Economic Commission for Africa, 2007), 7.

28. Data on infrastructure in this paragraph come from United Nations, *World Economic Situation and Prospects*, 105-106, 126.

29. Economic Commission for Africa, *Economic Report on Africa 2007,* 26.

30. John H. Barton, Judith L. Goldstein, Timothy E. Josling, and Richard Steinberg, *Evolution of the Trade Regime* (Princeton: Princeton University Press, 2006), 10-11, 171-172; Stephen D. Krasner, "State Power and the Structure of International Trade," *World Politics* 28:3, (April 1976), 317-343; and John H. Jackson, *World Trade and the Law of GATT,* (Charlottesville, VA: Michie Company, 1969).

31. Richard H. Steinberg, "In the Shadow of Law or Power? Consensus-Based Bargaining and Outcomes in the GATT/WTO," *International Organization* 56:2 (2002), 339-375. Ngaire Wood and Amrita Narlikar observe, "The reality of trade negotiations is that states with large market-shares enjoy significant input and influence over decisions; indeed one might describe them as decision-makers, while states with smaller market share are effectively decision-takers." In Wood and Narlikar, "Governance and the Limits Accountability: the WTO, the IMF, and the World Bank," *International Social Science Journal* 53:170 (December 2001), 569-583, on 573.

32. Susan K. Sell, *Private Power, Public Law: The Globalization of Intellectual Property Rights* (Cambridge: Cambridge University Press, 2003); Jagdish Bhagwati, *In Defense of Globalization* (New York: Oxford University Press, 2004), 182–185; and William K. Tabb, *Economic Governance in an Age of Globalization,* (New York: Columbia University Press, 2004). Citing the case of cotton subsidies as an example, the World Bank observes, "The balance is even tilted against taxpayers and consumers in rich countries that often stand to lose from the protection of vested commercial interests." World Bank, *World Development Report 2006*, 212.

33. Richard Blackhurst, "Capacity of the WTO to Fulfill Its Mandate," in *The WTO as an International Organization*, A.O. Krueger, ed., (Chicago: University of Chicago Press, 1998), 31–58.

34. Goldin and Reinert, *Globalization for Development* , 234. See also Barton, Goldstein, Josling, and Steinberg, *Evolution of the Trade Regime*, 171-172; World Bank, *World Development Report 2006*, 212; and Woods and Narlikar, "Governance and the Limits Accountability," especially 573, 577.

35. Steinberg, "In the Shadow of Law or Power?", 356.

36. There are at least three reasons for changes in the balance of power. When earlier rounds freed developing countries from the requirement of reciprocal concessions, it reduced their bargaining power. Developing countries have also gained leverage as WTO provisions like TRIPs require their cooperation for successful implementation. Finally, the rapid economic growth of upper tier developing countries has increased their market current and potential market size, making them more important players at the negotiating table.

37. United Nations Development Programme, *Human Development Report 2005* (New York: United Nations Development Programme, 2005), 127.

38. Goldin and Reinert, *Globalization for Development*, 62.

39. Bernard Hoekman, "Dismantling Discrimination Against Developing Countries: Access, Rules, and Differential Treatment," Center for Economic Policy Research, London, *Discussion Paper No. 4694* (October 2004),16.

40. Economist Arvind Panagariya criticizes "senior staffers and financial institutions" including the president of the World Bank for using this figure. He charges that it inflates the figure for true subsidies because it is based on the OECD's Producer Support Estimates which are based on total revenues earned by producers over the world price,

which might be caused by tariff protection, export subsidies, output subsidies, or price support programs. Panagariya contends that a narrower definition based only on export and "amber box" subsidies is more appropriate. See Arvind Panagariya, "Liberalizing Agriculture," *Foreign Affairs* 84:7 (December 2005).

41. Raphael Minder, "OECD Study Shows Scant Reduction in Subsidies to Farmers over Past 10 Years," *Financial Times,* June 22, 2005. See also Oxfam International, "A Round for Free: How Rich Countries are Getting a Free Ride on Agricultural Subsidies at the WTO," *Oxfam Briefing Paper 76* (Washington, D.C.: Oxfam International, June 2005), 14.

42. Goldin and Reinert, *Globalization for Development*, 11.

43. Nancy Birdsall, Dani Rodrik, and Arvind Subramanian, "How to Help Poor Countries," *Foreign Affairs* 84:4 (July/August 2005), 136-152.

44. Goldin and Reinert, *Globalization for Development*, 64, 232.

45. Joseph E. Stiglitz, *Making Globalization Work* (New York: W.W. Norton, 2006), 86.

46. Martin Wolf, "Globalization and Global Economic Governance," *Oxford Review of Economic Policy* 20:1 (2004), 216.

47. Sandra Polaski, *Winners and Losers: Impact of the Doha Round on Developing Countries* (Washington, D.C.: Carnegie Foundation, 2006), viii.

48. *Ibid,* viii.

49. *Ibid*.

50. Kathryn Vyborny, "What Could the Doha Round Mean for Africa?" (Washington, D.C.: Carnegie Endowment for International Peace, June 12, 2007). Available at: http://carnegieendowment.org/publications/index.cfm?fa=view&id=19208&prog=zgp&proj=zted> (accessed on December 3, 2007).

51. M. Boldrin and D.K. Levine, "Case Against Intellectual Monopoly," *International Economic* Review 45:2 (2002), 327-360; M. Boldrin and D.K. Levine, "Rent-Seeking and Innovation," *Journal of Monetary Economics* 51:1 (2004), 1227-1260; M. Boldrin and D.K. Levine, "Case Against Intellectual Property," *American Economic Review* 92:2 (2002), 209-212; and D.E. Kash and W. Kingston, "Patents in a World of Complex Technologies," *Science and Public Policy* 28:1 (2001), 11–22.

52. Stiglitz, *Making Globalization Work* , 116.

53. World Bank, *World Development Report 2006*, 214.

54. Ha-Joon Chang, "Intellectual Property Rights and Economic Development: Historical Lessons and Emerging Issues," *Journal of Human Development* 2:2 (2001), 287-309.

55. UNDP *Human Development Report 2005,* 135.

56. One study found that in India alone, the cost of enforcing TRIPs for pharmaceuticals was $450 million annually. Shubham Chaudhuri, Pinelopi K. Goldberg, and Panle Jia, "Estimating the Effects of Global Patent Protection in Pharmaceuticals: A Case Study of Quinolones in India," (Washington, D.C.: World Bank, 2004) Available at http://www.econ.yale.edu/~pg87/TRIPS.pdf (accessed on October 24, 2006).

57. Birdsall, Rodrik, and Subramanian, "How to Help Poor Countries," 144; and Jean O. Lanjow and William Jack, "Trading Up: How Much Should Poor Countries Pay to Support Pharmaceutical Innovation?" (Washington, D.C. Center for Global Development, 2002). Jagdish Bhagwati, (*In Defense of Globalization,* 185) explains that pharmaceutical companies pressed for strict enforcement of TRIPS not because of the royalty income that they might receive but because they wanted to raise the rate of return in developing countries for drugs already sold in developed countries and therefore produced at very low marginal costs.

58. Goldin and Reinert, *Globalization for Development*, 206.

59. Instead of pressure from global civil society, Daniel Drezner persuasively argues that the exception made for AIDS/HIV was more a consequence of the "securitization" of the issue and the unusually high costs to wealthy countries of forum shifting in the wake of the WTO fiasco at Seattle and 9/11. See Daniel W. Drezner, *All Politics Is Global: Explaining International Regulatory Regimes* (Princeton: Princeton University Press, 2007) 176-203.

60. Not all migration during this period was voluntary. In all, about 15 million people were taken from Africa to Europe as slaves. From the mid 1830s through the 1880s, some 50 million people migrated from India and China as indentured labor to work in mines, plantations, and construction in the Americas, the Caribbean, Africa, and parts of Southeast Asia. See "Cross-border Movements of People," in D. Nayyar, ed., *Governing Globalization: Issues and Institutions* (New Delhi: Oxford University Press, 2002), 145.

61. Richard Baldwin and Philippe Martin, "Two Waves of Globalization: Superficial Similarities, Fundamental Differences," *National Bureau of Economic Research Working Paper 6904* (January 1999), 19. Available at http://www.nber.org/papers/w6904 (accessed on February 9, 2006).

62. Peter H. Lindert and Jeffrey G. Williamson observe, "All of the real wage convergence in 1879-1910 was attributable to migration, about two-thirds of the GDP per worker convergence, and perhaps one-half of the GDP per capita convergence." These data are for the European countries and countries in North and South America. See Peter H. Lindert and Jeffrey G. Williamson,"Does Globalization Make the World More Unequal?" *National Bureau of Economic Research Working Paper 8228* (April 2001), 15. Available at http://www.nber.org/papers/w8228 (accessed on February 9, 2006).

63. Birdsall, Rodrik, and Subramanian, "How to Help Poor Countries," 150.

64. World Bank, *Global Development Finance 2007*, 37.

65. World Bank *World Development Report 2006*, 209. In addition, by preventing them from "voting with their feet," restrictions on international labor mobility curb the ability of citizens in developing countries to make their governments responsive to their needs. See Jonathon W. Moses, "Exit, Vote and Sovereignty: Migration, States and Globalization," *Review of International Political Economy* 12:1 (February 2005), 53–77.

66. Daniel Drezner (*All Politics Is Global*, 119-148) points out that the wealthy countries created the Financial Stability Forum in order to bypass the IMF because they preferred an institution that they monopolized rather than one where weighted voting procedures that favored of wealthy countries still allowed developing countries to exercise limited influence.

67. Observations that the IMF policies are disproportionately influenced by the United States comes from a variety of distinguished analysts. For example, see Martin Wolf, "Globalization and Global Economic Governance," 72-84; Jagdish Bhagwati, "Capital Myth," *Foreign Affairs* 77:3 (May/June 1998), 7-12; Joseph E. Stiglitz, *Globalization and Its Discontents* (New York: W.W. Norton, 2002); Randall Stone, *Lending Credibility: The International Monetary Fund and the Post-Communist Transition* (Princeton: Princeton University Press, 2002); Axel Dreher and Nathan Jensen, "Independent Actor or Agent? Empirical Analysis of the Impactof US Interests and International Monetary Fund Conditions," *Journal of Law and* Economics 50:1 (February 2007), 105-124; and Strom C. Thacker, "The High Politics of IMF lending," *World Politics* 52:1 (1999) 38-75. The IMF provides an interesting example of how inequality may shape institutions. According to Devesh Kapur and Moises Naim, after the IMF was transformed from a financial cooperative in which all members were potentially borrowers to an organization with its membership divided between "structural creditors" (the industrialized countries) on the one hand, and developing countries as borrowers or potential borrowers on the other, the rigor of IMF conditionality was tightened – beginning with new guidelines in 1979 – and the risks and costs borne by developed countries in order to exercise influence over the IMF were reduced. It should be noted that new guidelines were issued in 2002 that enjoined the fund to reverse the expanding scope of conditionality by restricting it to macroeconomic policy. See Devesh Kapur and Moises Naim, "IMF and Democratic Governance," *Journal of Democracy* 16:1 (January 2005), 89-102.

68. Eswar S. Prasad, Kenneth Rogoff, Shang-Jin Wei, and M. Ayhan Kose, "Effects of Financial Globalization on Developing Countries: Some Empirical Evidence," *IMF Occasional Paper 220*, (Washington, D.C., 2003), 24. Kenneth Rogoff was the IMF's chief economist at the time that the paper was released.

69. World Bank, *Finance for Growth: Policy Choices in a Volatile World* (Oxford: Oxford University Press, 2001), 75.

70. Calculated from Barry Eichengreen and Michael D. Bordo, "Crises Now and Then: What Lessons From the Last Era of Financial Globalization," *National Bureau of Economic Research Working Paper 8716* (2002), 52-55. Note that these calculations are based on data for 21 countries for the first three periods. For 1973-97, the data are for 56 countries. The crisis frequency calculated for the 21 countries is 9.68.

71. A country's output loss is the sum of the differences between actual GDP growth and the five-year average before the crisis until growth returns to the trend. See *Ibid*., 21, 42.

72. In the 1990s, total consumption volatility of annual growth rates in terms of median percentage standard deviations for industrial countries was 1.38. Volatility for most financially-integrated developing economies was 4.10, 2.97 times greater. Volatility for the least financially-integrated countries was 4.79 or 3.47 times greater. From the 1980s to the 1990s, total consumption volatility in most financially-integrated developing economies increased from 3.43 to 4.10 while it declined from 6.34 to 4.79 in the least financially-integrated developed economies and from 1.58 to 1.38 in industrial economies. See Eswar Prasad, et al., "Effects of Financial Globalization on Developing Countries," Table 4.1, 23. See also M. Ayhan Kose, Eswar S. Prasad, and Marco E. Terrones, "Financial Integration and Macroeconomic Volatility," *IMF Staff Papers 50* (Washington, D.C.: International Monetary Fund, 2003), 119-142.

73. For concise discussions of these dynamics, see Prasad et al., "Effects of Financial Globalization on Developing Countries," 24; and Joseph E. Stiglitz, "Capital-Market Liberalization, Globalization, and the IMF," *Oxford Review of Economic Policy* 20:1 (2004), 62-63.

74. Stephanie Griffith-Jones and Jenny Kimmis, "International Financial Volatility," *Journal of Human Development* 4:2 (July 2003), 212.

75. See Prasad et al., "Effects of Financial Globalization on Developing Countries," 27, who, as support, cite evidence from Enrica Detragiache and Antonio Spilimbergo, "Crises and Liquidity: Evidence and Interpretation," *IMF Working Paper* 01/2 (Washington, D.C.: International Monetary Fund, 2001). Also see Dani Rodrik and Andres Velasco, "Short-Term Capital Flows," paper prepared for ABCDE Conference at World Bank, Washington, D.C., 1999.

76. World Bank, *Global Development Finance 2001* (Washington, D.C.: World Bank, 2001), 24. On the pro-cyclical impact of sovereign ratings on capital flows, especially for bond markets, see also Carmen M. Reinhart, "Credit Ratings, Default, Financial Crises, and Sovereign Credit Ratings," *World Bank Economic Review* 16:2 (2002), 151-70; and H. Reisen, "Ratings Since the Asian Crisis," in R. French-Davis and S. Griffith-Jones, eds., *From Capital Surges to Drought: Seeking Stability for Emerging Economies* (Basingstoke, UK: Palgrave Macmillan, 2003), 119-138.

77. For a summary of recent studies on herding and momentum trading, see Prasad et al. "Effects of Financial Globalization on Developing Countries," 27. For more on the impact of investment managers with short time horizons, see John Williamson, "Proposals for Curbing the Boom Bust Cycle in the Supply of Capital to Emerging Markets," in French-Davis and Griffith-Jones, eds., *From Capital Surges to Drought*, 139-58.

78. Griffith-Jones and Kimmis, "International Financial Volatility," 212.

79. For a good discussion of contagion in international markets, see Prasad et al., "Effects of Financial Globalization on Developing Countries," 26-27.

80. Carmen M. Reinhart and Vincent R. Reinhart, "What Hurts Most? G-3 Exchange Rage or Interest Rate Volatility," *National Bureau of Economic Working Paper 8535* (2001) available at http://www.nber.org/papers/w8535 (accessed on February 12, 2006). See also Ashoka Mody and Mark P. Taylor, "International Capital Crunches: The Time-Varying Role of Informational Asymmetries," *IMF Working Paper 02/34* (Washington, D.C.: IMF, 2002).

81. Hali Edison, "A Simple Measure of the Intensity of Capital Controls," *International Finance Discussion Paper No. 705* (Washington, DC: Board of Governors of the Federal Reserve, 2001) cited in Prasad et al., "Effects of Financial Globalization on Developing Countries," 25. The latter add that developing country stock markets were affected by the stock market bubble in the United States in the late 1990s, 26.

82. Barry Eichengreen and Ricardo Hausmann, "Exchange Rates and Financial Fragility," *National Bureau of Economic Research Working Paper 7418* (1999). Available at http://www.nber.org/papers/w7418 (accessed on February 12, 2006).

83. Arguments about "original sin" were initially articulated by Eichengreen and Hausmann, "Exchange Rates and Financial Fragility." The distribution of original sin defined as the share of foreign debt held in foreign currency comes from Barry Eichengreen, Ricardo Hausmann, and Ugo Panizza, "Currency Mismatches, Debt Intolerance and Original Sin: Why They are not the Same and Why it Matters," *National Bureau of Economic Research Working Paper 10036* (2003), 50. Available at http://www.nber.org/papers/w10036 (accessed on February 12, 2006).

84. Data in the previous two sentences are from World Bank *Global Development Finance 2007,* 39.

85. Sovereign wealth funds are one manifestation of the financial clout of these export surplus countries. These funds are estimated to own as much as $2.5 trillion in assets. They are forecast to grow to $12 trillion by 2015. See Anders Aslund "The Truth About Sovereign Wealth Funds," *Foreign Policy* (December 2007), available at http://www.foreignpolicy.com/story/cms.php?story_id=4056 (accessed on December 28, 2007). See also Simon Johnson, "The Rise of Sovereign Wealth Funds," *Finance and Development* 44:3 (September 2007), 56-57.

86. Dani Rodrik, "The Social Cost of Foreign Exchange Reserves," *International Economic Journal* 20:3 (2006), 253-266. Data on the increase in the ratio of foreign reserves to GDP are also from this source.

87. Nicholas Kaldor, "Alternative Theories of Distribution," *Review of Economic Studies* 23:2 (1955-56), 94-100; and Michael Kalecki, *Selected Essays on the Dynamics of the Capitalist Economy* (Cambridge: Cambridge University Press, 1971).

88. Francisco Rodriguez, "Inequality, Economic Growth and Economic Performance: A Background Note for the World Development Report 2000", University of Maryland, College Park, 1999.

89. Elhanan Helpman, *Mystery of Economic Growth* (Cambridge: Belknap Press of Harvard University Press, 2004), 91.

90. Thomas Piketty, "Dynamics of Wealth Distribution and the Interest Rate with Credit Rationing," *Review of Economic Studies* 64:2 (1997), 173-189; and Oded Galor and Joseph Zeira, "Income Distribution and Macroeconomics," *Review of Economic Studies* 60:1 (1993), 35-52.

91. Alberto Alesina and Dani Rodrik, "Distributive Politics and Economic Growth," *Quarterly Journal of Economics* 109:2 (May 1994), 465-490; Torsten Persson and Guido Tabellini, "Is Inequality Harmful for Growth?" *American Economic* Review 84:3 (May 1994), 600-621; and Allan Meltzer and Scott Richard, "A Rational Theory of the Size of Government," *Journal of Political Economy* 89:5 (1981), 914-927.

92. Giovanni Andrea Cornia, Tony Addison, and Sampsa Kiinski, "Income Distribution Changes and Their Impact in the Post Second World War Period," in G.A. Cornia, ed., *Inequality, Growth, and Poverty in an Era of Liberalization and Globalization* (Oxford: Oxford University Press, 2004), 26–56; Abhijit Banerjee and Esther Duflo, "Inequality and Growth: What Can the Data Say?" *Journal of Economic Growth* 8:3 (2003), 267–299; and Roland Benabou, "Inequality and Growth," in B. Bernanke and J. Rotemberg, eds., *NBER Macroeconomics Annual 1996* (Cambridge: MIT Press, 1996).

93. For instance, see B. Swallow and D. Bromley, "Institutions, Governance and Incentives in Common Property Regimes for African Rangelands," *Environmental and Resource Economics* 6:1 (1995), 99-118; D. W. Heckathorn, ""Collective Action and Group Heterogeneity: Voluntary Provision Versus Selective Incentives," *American Sociological Review* 58:3 (1993), 329–350; R. Garcia-Barrios and L. Garcia-Barrios, "Environmental and Technological Degradation in Peasant Agriculture: A Consequence of Development in Mexico," *World Development* 18:11 (November 1990), 1569-1585; and Robert Wade, *Village Republics: Economic Conditions for Collective Action in South India* (Cambridge: Cambridge University Press, 1988).

94. See Jean-Marie Baland and Jean-Philippe Platteau, "Collective Action on the Commons: the Rule of Inequality," CRED, University of Namur, October 2002; and Jean-Marie Baland, Pranab Bardhan, and Samuel Bowles, eds., *Inequality, Collective Action and Environmental Sustainability* (New York: Russell Sage, 2006).

95. Pranab Bardhan, *Scarcity, Conflicts, and Cooperation: Essays in the Political and Institutional Economics of Development* (Cambridge: MIT Press, 2004), chapter 10, especially 212.

96. Abhijit Banerjee, Dilip Mookherjee, Kaivan Munshi, and Debraj Ray, "Inequality, Control Rights, and Rent Seeking: Sugar Cooperatives in Maharashtra," *Journal of Political Economy* 109:11 (2001), 138–190.

97. Douglass C. North, *Institutions, Institutional Change, and Economic Performance* (Cambridge: Cambridge University Press, 1990, 110.

98. Highlighting the importance of political power, Daron Acemoglu and James A. Robinson describe this as the "political replacement threat" and argue that the elite's incentives to resist change come from threats to their political power.

See Daron Acemoglu and James A. Robinson, “Economic Backwardness in Historical Perspective,” *American Political Science Review* 100:1 (February 2006), 115–131. Paul Collier (*The Bottom Billion,* 68) makes a similar point for the world’s poorest countries. We have framed the issue in terms of more general threats to the economic and political power.

99. Samuel Bowles, “Institutional Poverty Traps,” in S. Bowles, S. Kurlauf, and K.Hoff, eds., *Poverty Traps* (Princeton: Princeton University Press) (2006), 116–138. Additionally, to the extent to which increasing inequality enables elites to impose institutions that are more biased in their favor, they have more incentives to resist reform. Following Dahl and Boix, one can argue that growing inequality increases the “costs of toleration” to elites. See Robert Dahl, *Polyarchy: Participation and Opposition* (New Haven: Yale University Press, 1971) and Carles Boix, *Democracy and Distribution* (Cambridge: Cambridge University, 2003). Furthermore, many technologies of predation and repression have increasing returns to scale. Growing inequality increases their efficiency. See Bardhan, *Scarcity, Conflicts, and Cooperation*, 50.

100. Amartya Sen, *Resources, Values and Development* (London: Basil Blackwell, 1984), 30, cited in Bardhan, *Scarcity, Conflicts, and Cooperation*, 52.

101. The considerations in this paragraph are drawn from Daron Acemoglu and James A. Robinson, “Economic Backwardness in Historical Perspective;” Bardhan, *Scarcity, Conflicts, and Cooperation*, 27-38; Daron Acemoglu, “Why not a political Coase theorem? Social conflict, commitment and politics,” *Journal of Comparative Economics* 31:4 (December 2003) 620-652; and Robert Brenner, “Agrarian Class Structure and Economic Development in Pre-Industrial Europe,” *Past and Present* 70:1 (1976), 30-70.

102. This agenda was set by the path-breaking work of Douglass C. North in *Structure and Change in Economic History* (New York: W.W. Norton, 1981) and *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990).

103. Jeffrey Herbst, *States and Power in Africa: Comparative Lessons in Authority and Control* (Princeton: Princeton University Press, 2000); and Bardhan, *Scarcity, Conflicts, and Cooperation,* 4-5, 19-26.

104. Herbst, in *States and Power in Africa,* argues that sub-Saharan Africa’s low population density and lack of urbanization led to weak states with tenuous control over the rural hinterland whereas European states with greater population density and larger cities were more successful in penetrating rural areas. Taking a complementary perspective, Bardhan (*Scarcity, Conflicts, and Cooperation*)—drawing on V. Bockstette, A. Chanda, and Louis Putterman, “States and Markets: The Advantage of an Early Start,” *Journal of Economic Growth* 7 (2002), 347-369—finds that one factor contributing to the economic success of Asian societies is that many had longer established pre-colonial state traditions than did societies in sub-Saharan Africa and Latin America.

105. Stanley L. Engerman and Kenneth L. Sokoloff, “Colonialism, Inequality, and Long-Run Paths of Development,” *National Bureau of Economic Research Working Paper No. 11057* (January 2005); Stanley L. Engerman and Kenneth L. Sokoloff, “Factor Endowments, Inequality and Paths of Development among New World Economies,” *Economia* 3 (2002), 41-109; Stanley L. Engerman and Kenneth Sokoloff, “Institutions, Factor Endowments, and Paths of Development in the New World,” *Journal of Economic Perspectives* 14:3 (2000), 217-232; Stanley L. Engerman and Kenneth L. Sokoloff, “Factor Endowments, Institutions, and Differential Paths of Growth among New World Economies,” in S. Haber, ed., How Latin America Fell Behind (Stanford: Stanford University Press, 1997, 260-304.

106. For exciting new research along these lines, see Steven I. Wilkinson, “Colonization, Institutions and Conflict,” (Duke University 2005).

107. For instance see David Laitin, *Culture and Hegemony* (Princeton: Princeton University Press, 1986); and Gyan Pandey, *The Construction of Communalism in Northern India* (New Delhi: Oxford University Press, 1990).

108. Przeworski with Curvale (2005), 30, unpublished paper, New York University, 2005, available at http://politics.as.nyu.edu/object/AdamPrzeworski.html (accessed on June 25, 2006).

109. Keith Jaggers and Ted Robert Gurr, “Polity III: Regime Type and Political Authority 1800-1994,” Inter-university Consortium for Political and Social Research, Ann Arbor, MI, 1996; and *Freedom in the World, 2006: Selected Data from Freedom House’s Annual Global Survey of Political Rights and Civil Liberties*, available at http://www.freedomhouse.org (accessed on August 2, 2006).

110. United Nations, *Millennium Development Goals Report 2007* (New York: United Nations, 2007), 8.

111. Cornia, Addison, and Kiiski, “Income Distribution Changes and Their Impact in the Post-Second World War Period,” in G.A. Cornia, ed., *Inequality, Growth, and Poverty in an Era of Liberalization and Globalization*, 40. The data for developing countries in this paragraph include countries classified as transitional” by Cornia, Addison, and Kiiski. Other studies confirm the trend toward increasing domestic inequality. A recent study by the International Monetary Fund—the *World Economic Outlook October 2007: Globalization and Inequality* (Washington, DC: International Monetary Fund, 2007), 154—found that from 1981-2003 the Gini coefficient representing inequality within developing countries increased at an annual average of 0.3 percent. Bourguignon and Morrison find that the Theil index for inequality within country groups increased from 0.315 in 1970 to 0.342 in 1992. See F. Bourguignon and C. Morrisson, “Inequality Among World Citizens: 1820-1992,” *American Economic Review* 92:4 (2002) 727-744. Milanovic (*Worlds Apart*, 112), using somewhat different data, finds that the Theil index for within country inequality increased from 20.3 to 23.2 from 1988 to 1998.

112. The IMF (*World Economic Outlook 2007,* 155) notes that increasing agricultural exports has a “particularly noticeable” impact on reducing income inequality in developing countries as does shifting underemployed agricultural workers to industry and services. See also Pranab Bardhan, “Globalization and the Limits to Poverty Alleviation,” in P. Bardhan, S. Bowles, and M. Wallerstein, eds., *Globalization and Egalitarian Redistribution* (New York: Russell Sage, 2006), 13-32.

113. Erik Wibbels, "Dependency Revisited: International Markets, Business Cycles and Social Spending in the Developing World," *International Organization* 60:2 (Spring 2006), 433-468; Erik Wibbels and Moises Arce, "Globalization, Taxation, and Burden-Shifting in Latin America," *International Organization* 57: 1 (2003), 111-136; Nita Rudra, "Globalization and the Decline of the Welfare State in Less-Developed Countries," *International Organization* 52:2 (2002), 411-445; and Robert R. Kaufman and Alex Segura-Ubiergo, "Globalization, Domestic Politics and Spending in Latin America: A Time Series Cross-Section Analysis, 1973-97," *World Politics* 53:4 (July 2001), 553-587.

114. Wibbels and Arce, "Globalization, Taxation, and Burden-Shifting in Latin America," 111-136.

115. Wibbels "Dependency Revisited", 433-468.

116. World Bank, *World Development Report 2006*, 199-201; Nancy Birdsall, "Stormy Days on an Open Field: Asymmetries in the Global Economy," (Washington, D.C.: Center for Global Development unpublished paper, 2005); Ishac Diwan, "Debt as Sweat: Labor, Financial Crises, and the Globalization of Capital," (Washington, D.C.: World Bank, 2002) unpublished paper available at http://info.worldbank.org.etools/docs/voddocs/150/332/diwan.pdf (accessed on May 19, 2006); Guy Pfefferman, "Why Latin America Stays Trapped," *Globalist,* November 21, 2002, available at http://www.theglobalist.com/research/papers/pfeffermann2.shtml (accessed on May 19, 2006); Nancy Birdsall and Stephan Haggard, *After the Crisis: the Social Contract and the Middle Class in East Asia* (Washington, D.C.: Carnegie Endowment for International Peace, 2000). Available at http://www.ceip.org/files/publications/pdf/AfterCr.pdf (accessed on May 19, 2006); David M. De Ferranti, Guillermo Perry, Francisco H.G. Ferreira and Michael Walton, *Inequality in Latin America: Breaking with History?* (Washington, DC: The World Bank, 2004). James Raymond Vreeland, *The IMF and Economic Development* (New York: Cambridge University Press, 2003); and Manuel Pastor, "Effects of IMF Programs in the third world: Debate and Evidence from Latin America," *World Development* 15:2 (1987), 365-391.

117. Pinelopi Koujianou Goldberg and Nina Pavcnik, "Distributional Effects of Globalization in Developing Countries," *Journal of Economic Literature* 45:1 (March 2007) 39-82; and Machiko Nissanke and Erik Thorbecke, "Channels and Policy Debate in the Globalization-Inequality-Poverty Nexus," *World Development* 34:8 (August 2005), especially 1347-1348. The IMF has found that technology has been "the main driving force" in the increase in domestic inequality in developing countries. See IMF, *World Economic Outlook 2007*, 154.

118. Thomas Carothers, "End of the Transition Paradigm," *Journal of Democracy* 13:1 (2002), 9.

119. *Ibid*, 18.

120. *Ibid*, 10-14.

121. Larry Diamond, "Thinking about Hybrid Regimes," *Journal of Democracy* 13:2 (April 2002), 27.

122. Calculated from Diamond, "Thinking about Hybrid Regimes," Table 2, 30-31. The subtotals for non-democratic regimes add up to 53% rather than their aggregate of 54% due to rounding errors. For another classificatory framework that offers a more detailed categorization of "defective democracies", see Wolfgang Merkel, "Embedded and Defective Democracies," *Democratization* 11:5 (December 2004), 33-58.

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124. Guillermo O'Donnell, "Delegative Democracy," *Journal of Democracy* 5:1 (January 1994), 55-69. For an important remedy to this problem, see Guillermo O'Donnell, "Horizontal Accountability and New Polyarchies," in A. Schedler, L. Diamond, and M.F. Plattner, eds., *Self-Restraining State: Power and Accountability in New Democracies* (Boulder, CO: Lynn Reinner, 1998), 29-52; and Guillermo O'Donnell, "Horizontal Accountability: Legal Institutionalization of Mistrust," in S. Mainwaring and C. Welna, eds., *Accountability, Governance, and Political Institutions in Latin America* (New York: Oxford University Press, 2003), 48-77.

125. Dietrich Rueschemeyer, "Addressing Inequality," *Journal of Democracy* 15:4 (October 2004), 76-90.

126. Atul Kohli, "Politics of Economic Growth in India, 1980-2005 Part I: The 1980s," *Economic and Political Weekly* (April 1, 2006), 1251-1259; Atul Kohli, "Politics of Economic Growth in India, 1980-2005, Part II: The 1990s and Beyond," *Economic and Political Weekly* (April 8, 2006), 1361-1370: Atul Kohli, *State-Directed Development: Political Power and Industrialisation* (Cambridge: Cambridge University Press, 2004); and Aseema Sinha, "Understanding the Rise and Transformation of Business Collective Action in India," *Business and Politics* 7:2 (2005), 1-35.

127. Nicholas van de Walle, *African Economies and the Politics of Permanent Crisis, 1979-1999* (Cambridge: Cambridge University Press, 2001). A similar argument was earlier developed by Jeffrey Herbst, "Structural Adjustment of Politics in Africa," *World Development* 18:7 (1990), 949-958.

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Coalitions for Reform: Business Preferences, Political Institutions, and Neoliberal Reform in Brazil (University Park: Pennsylvania State University Press, 1999); Javier Corrales, *Presidents without Parties: Politics of Economic Reform in Argentina and Venezuela in the 1990s* (University Park: Pennsylvania State University Press, 2002); Eduardo Silva, *State and Capital in Chile* (Boulder, CO: Westview Press, 1996); Edward Gibson, *Class and Conservative Parties: Argentina in Comparative Perspective* (Baltimore: Johns Hopkins University Press, 1997); Carlos Acuna, "Politics and Economics in the Argentina of the Nineties," in W.C. Smith, C.H. Acuna, and E. Gamarra, eds., *Democracy, Markets, and Structural Reform in Latin America* (Miami: University of Miami, 1994); and William Smith, "Democracy, Distributional Conflict, and Macroeconomic Policymaking in Argentina, 1983-89," *Journal of InterAmerican Studies and World Affairs* 32:2 (Summer 1990), 1-42.

129. Economic reform since the 1980s has increased the importance of technocrats in the policy-making of many countries, and this has had important consequences for the politics of economic reform. The enhanced role for technocrats is partly a result of the capacity-building efforts of international financial institutions and foreign donors. See Merilee S. Grindle, *Challenging the State: Crisis and Innovation in Latin America and Africa* (New York: Cambridge University Press, 1960, especially 31-45.) Many developing countries allot economic policy-making authority to internationally-recognized experts to signal to international markets, international financial institutions, and domestic economic elites that the government is committed to reform. See chapters by Benn Ross Schneider and Veronica Montecinos in M. Centeno and P. Silva, eds., *Politics of Expertise in Latin America* (New York: St. Martin's Press, 1998). The role of technocrats is controversial, in part because it varies under different political circumstances. For instance, van de Walle (*African Economies and the Politics of Permanent Crisis*, 136-137) argues that neopatrimonial leaders have marginalized the impact of technocrats in the economic policy-making process in most of sub-Saharan Africa while Judith Teichman contends that neopatrimonial leaders enhanced the role of technocrats in Chile and Argentina. See Judith Teichman, "Merging the Modern and the Traditional: Market Reform in Chile and Argentina," *Comparative Politics* 37:1 (October 2004), 23-40. Some analysts describe technocrats in positive terms as agents of change that relentlessly strive to improve economic policy in resistance to political interests wanting to shape it in favor of their special interests. See Arnold Harberger, "Secrets of Success: A Handful of Heroes," *American Economic Review* 83:2 (May 1993), 343-350; J. Dominguez, ed., *Technopols: Freeing Politics and Markets in Latin America in the 1990s* (University Park: Pennsylvania State University Press, 1997); John Williamson, "In Search of A Manual for Technopols," in J. Williamson, ed., *Political Economy of Policy Reform* (Washington, D.C.: Institute for International Economics, 1994), 11-28; and John Waterbury, *Exposed to Innumerable Delusions: Public Enterprise and State Power in Egypt, India, Mexico and Turkey* (Cambridge: Cambridge University Press, 1993). Other analysts contend that growing importance of technocratic policy-making has served elite economic interests while excluding democratic participation in economic policy-making. See Teichman, "Merging the Modern and Traditional;" Glenn Biglaiser, "Internalization of Chicago's Economic in Latin America," *Economic Development and Cultural Change* 50 (January 2002), 269-286; Miguel Centeno and Patricio Silva, "The Politics of Expertise in Latin America: Introduction," in Centeno and Silva, eds., *The Politics of Expertise in Latin America* (New York: St. Martin's Press, 1998), 1-12.

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132. Nancy Birdsall and John Nellis, "Winners and Losers: Assessing the Distributional Impact of Privatization," *World Development* 31:10 (October 2003), 1617-1633.

133. Crawford Young, ed., *The African Colonial State in Comparative Perspective* (New Haven: Yale University Press, 1994); Michael Bratton, "Beyond the State: Civil Society and Associational Life in Africa," *World Politics* 41:3 (1989), 407-30; and Ruth Collier, *Regimes in Tropical Africa* (Berkeley: University of California Press, 1982).

134. Van de Walle, *African Economies and the Politics of Permanent Crisis*; and Robert Fatton Jr., *Predatory Rule: State and Civil Society in Africa* (Boulder: Lynn Reinner, 1992).

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136. Edward Gibson, "The Populist Road to Market Reform: Policy and Electoral Coalitions in Mexico and Argentina," *World Politics* 49:3 (April 1997) 339-370.

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187. Alfred Stepan, "Federalism and Democracy: Beyond the U.S. Model," *Journal of Democracy* 10:4 (1999), 31. See also Joseph Raz, *The Morality of Freedom* (Oxford: Clarendon, 1986), 193-216.

188. For an elaboration of the concept of group rights, see Will Kymlicka, *Multicultural Citizenship: A Liberal Theory of Minority Rights* (Oxford: Clarendon, 1995).

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Report of the Task Force on Difference, Inequality, and Developing Societies

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