Journal of Peace Studies, Vol. 11, Issue 1, January-March, 2004

The Economic And Social Impacts of Globalisation

Satya R. Pattnayak*

*[*Satya R. Pattnayak teaches in the Department of Sociology, Villanova University, Villanova, Pennsylvania, USA].*

An earlier version of this paper titled "Taking a Good Look at the Economic and Social Impacts of Globalisation" was presented at the International Sociological Association's Research Committee Conference on Social Stratification, April 26-28, 2001, at the University of Mannheim, Germany.

The studies of globalisation have been pervasive in the social sciences in the past two decades. These studies can be put into three categories in terms of their main focus. The first group consists of those that have studied the causes of globalisation. The second group in general has mostly analysed the various processes of globalisation. Finally, the third group of studies has mostly focused on the various economic and social consequences of globalisation.[1]

The paper intends to analyse the effects of globalisation on the development of different countries. In particular, it seeks to examine the impact of economic globalisation on two related dimensions of poverty worldwide. In addition, it tests competing claims about the role of the state in the process of globalisation. Does globalisation require a strong state? Or the impact of the relationship between globalisation and the state on national poverty and inequality depends on political variables, such as those involving political power groups in the host society, including political parties? Economic globalisation in recent years has been generally accompanied by the processes of political opening, namely, democratic opening. Do national political factors modify the role of the state accordingly, or the international processes of finance and credit predetermine the role of the state and trade based transactions among nations? Is the increased role played by the International Monetary Fund (IMF) and the World Bank, in addition to the regional supra-state organisations, such as the European Parliament and the NAFTA, makes the role of the traditional nation state superfluous? These are some questions of paramount importance.

Poverty and Inequality Across Regions

Have the processes of globalisation done anything to the rates of internal inequality and poverty rates worldwide? In other words, have these rates increased in recent years? "The World's Children" reports that during the 1990s, the respective shares of the bottom 40% and top 20% of the total national household income have seen the following variations across major regions: 19% and 41% among developed/industrialised countries; 22% and 39% in South Asia; 17% and 47% in East Asia and the Pacific; 12% and 57% among the Sub-Saharan African countries; but 10% and 60% in the Latin American & Caribbean countries. On the basis of these data, it can be argued that to ensure greater capital mobility the Latin American countries have, embarked upon the policies of reducing trade barriers and other related policies of institutional reform. However, the trade policies in the absence of proper fiscal and monetary reforms have led to the worst internal income distribution. But South Asia, a late entrant to this global reduction of trade and investment barriers through fiscal and monetary reforms, has the best internal income distribution. Yet, it is well known that South Asia has the world's majority of poor people and children.[2]

If one examines another type of data published by the World Bank, the following observations stand out: in Latin America and the Caribbean, the percentage share of the total population living on less than $1 a day has been by and large constant since the late 1980s; it was 15.3% in 1987 and 15.6% in 1998, hardly any movement of any significance, but that amounts to over 15 million people more in dire poverty in 1998 than there were in 1987. On the other hand, South Asia, the region with the best internal distribution of income in the 1990s, has 40% of its populations living on less than $1 per day whereas, in 1987 this figure stood at 45%, a reduction of 5% in a span of 11 years. However, it is also found that in terms of sheer number, there are 522 million people in South Asia who live under $1 a day; this number was 474 million in 1987, an increase of over 10% in absolute number.[3]

But there are some promising numbers as well. The under five mortality rate has declined from 178 in 1960 to 74 in 1998, a decline of over 58%. Regional variations have been impressive as well. In Latin America, the under five mortality rate declined by 73%, from 137 in 1960 to 37 in 1998; in Sub-Saharan Africa, this rate declined by 44%, from 280 in 1960 to 156 in 1998; in Asian countries, this very rate declined by 59%, from 294 in 1960 to 83 in 1998. In OECD countries, the under 5 mortality rate declined the most of any group, by almost 84%, from 45 in 1960 to 7 in 1998.[4]

As far as the electric power consumption is concerned, the trends across regions are quite interesting. During 1990-1997, for high-income countries, the per capita consumption of kilowatt-hours of electric power increased by 13 percent, a jump from 7294 kw-hours in 1990 to 8238 kw-hours in 1997. In Latin America, the per capita consumption increased by 24%, from 1131 kw- hours in 1990 to 1402 Kw-hours in 1998. In South Asia, the region previously noted to have the best internal distribution of income but the worst poverty rate, this consumption rate increased by 42%, from 228 kw-hours in 1990 to 324 kw-hours in 1997. Only in Sub-Saharan Africa, this electric power consumption rate remained constant.[5] At this point, it should be noted that there are regional variations in income inequality and poverty rates as well as in the under five mortality and electric power consumption rates; all of these have been conceived by scholars to be important indicators of development.[6]

Economic Globalisation Indicators

If the globalisation promised much economic growth, among others, then, an examination is in order. It is found that during 1990-97 the growth rates of Gross National Product (GNP) per capita have not been spectacular. Of the major world regions, Asian countries showed the highest per capita GNP growth rate at a little over 4 percent. The Sub-Saharan African countries registered a negative growth rate at -.33%. During the same period the developed countries as a group grew at a modest rate of 1.5%, by no mean an astounding growth rate.[7] Many scholars have repeatedly argued that the per capita GNP growth rates had been higher in earlier decades of the twentieth century.[8] Latin American countries, many of which started the neoliberal programs much earlier than the African countries, grew at a modest rate of 1.93%.[9]

But the growth rate of exports in the 1990s has been far superior across regions. The developed countries as a group demonstrated a growth rate of 6.7%, only to be superseded by Asian countries at 10.76%. The exports of African countries grew by 4.24%, indicating that exports growth was a global phenomenon, thus giving some credibility to the notion that the processes of economic globalisation have indeed started yielding results worldwide, albeit at different rates across regions. Exports of goods and services as a % of GDP in 1999 far exceeded the corresponding figure for 1990 in all major regions, which consolidates the earlier claim that exports have become one of the main indicators of economic globalisation. But has this bonanza contributed to a decline in inequality and poverty-related indicators?[10]

As noted earlier, there has been some progress in this regard. The decline in under five mortality rate across all major regions perhaps comes at no surprise, but the increase in per capita consumption of electric power in the 1990s has been spectacular in the developing world. For example, Asian countries registered a 62.5% increase in electricity consumption, whereas the African countries registered hardly any. The group of developed countries registered an increase of about 9% during this decade.[11]

But What Happened to the State?

Since the 1980s, many countries around the world have undertaken measures to relax regulations over the economic activities undertaken within and around their national borders. It was a political reaction to growing skepticism over consistent failures on the part of the states to simultaneously generate economic growth and social development. The optimism of the earlier development theorists implicitly assumes that states have almost unlimited capacity to intervene in the economy and can run it better than can the private sector has been the focus of much scholarly debate and discussion.[12] Several proponents of increased globalisation operate under the assumption that state failure is worse than market failure and, therefore, states should be asked to play a more limited role in the new emphasis on economic globalisation.[13] Withdrawing the obstacles to production, accumulation, and export are advocated as the new priority areas of state action. Some theorists in the pro-globalisation tradition strongly believe that unimpeded competition in the market place will mitigate the counterproductive domestic behaviors encouraged by corrupt state bureaucrats.[14]

But it has been quite frequently argued that an increase in the pace of economic integration with the rest of the world would contribute to a growing sense of insecurity in the face of uncertainties of the marketplace.[15] Such was exactly the fear earlier in the twentieth century, which culminated in a greater state role in guiding the processes of development. The welfare state experiments of the western industrialised countries were intended to cushion the negative effects of market fluctuations on the vulnerable groups.[16] If the current state of international economy is fueled by constant demands to increase productivity through technological innovation and other creative ideas, it is bound to create even a bigger pool of people more vulnerable than ever before to changing skill and other demands of the marketplace.[17] Notice that keeping social harmony is paramount to guaranteeing a steady growth of accumulation and profits in capitalist economies. But how does that work? Some optimists have argued that the state will gradually disappear, and that in its place the regulatory regimes will be conducted by agencies at the international level, which consists of supra-national agencies, like the WTO, IMF, the World Bank, and the regional entities, such as the European Central Bank and the NAFTA administration.[18]

But is there a negative relationship between the pace of economic globalisation and the strength of the state worldwide? Is it necessary that the state must withdraw itself substantially from the regulatory arena and should only concern itself with the basic functions of law and order maintenance and social peace? Or, the relationship between globalisation and state activities is conditioned by several other factors. In particular, scholars have argued that the state can remain active in many other areas, such as education, health, and social security but yet relax trade and investment regulations. For example, a state can cut taxes and tariffs but yet would provide educational and health assistance for those unable to sustain themselves because of the uncertainties of the market place.[19]

The earlier euphoria over wide-open markets and their predicted success has made it clear that perhaps the state would eventually become a limited entity, leaving the major functions of economic coordination and financial policies largely to the international institutions. Some of that may be true, but it has not totally negated the role a state plays nationally in other vital areas. If anything, in the wake of the East Asian financial crisis, the Mexican Peso devaluation of 1994, and the gradual slowing down of the US and the Japanese economies makes one thing clear: the state probably still needs to play a critical role in areas that would sustain a competitive and relatively open economy. Workers are still to be trained and they have to acquire skills to remain competitive in the ever-changing demand patterns in the more integrated international economy.[20]

In an economy where information and capital travel across national borders in a matter of seconds, adequate copyright protection laws are needed. International crisis situations would automatically require a competent state to negotiate and resolve conflict. But in addition to these complementary activities of the state to keep international peace and minimise the violation of economic treaties and infringement laws, a domestic political dimension needs to be analysed. Since the 1980s, political realignments have been in place in both the western industrialised and the developing countries. The western industrialised group in general has seen an intense internal political debate about the role of the state in areas such as social security, medicare, welfare, and education. Certainly, in the US, and, to a lesser extent in UK and other European countries, this has been analysed as a radical departure from the old notion of the welfare state.[21]

A redefining of the state's role certainly does not spell its demise. On the contrary, mainly because the new contours of the international economy demands a smarter, more capable, and ever vigilant state able to complement the private sector in facilitating growth and accumulation, the modus operandi has shifted. In the US it has appeared in the form of welfare reform by putting a limit to the amount of relief a family can claim over a lifetime, along with a greater involvement on the part of the state in areas of education and social security.

It is fair to argue that the state role may have played a contributory role in increased exports and the electricity consumption rate. In all major world regions except Asia, the state involvement through subsidies and transfers as a % of total state expenditure has increased during 1990-97. But in percentage terms, the most amounts of transfer and state subsidies were registered among developed countries, followed by Latin America and Asia.[22] The African level of involvement in society through state transfers and subsidies was minimal, thus implying that perhaps the political capacity of the civil groups and organizations are the weakest. The developed countries are the strongest in terms of the political power of civil groups and organisations. As political parties are likely to respond to organized social groups, states in developed countries are likely to be more socially involved and responsible.

Other state involvement data also demonstrate the same point. The general government consumption patterns have declined worldwide, which perhaps strengthens the "hyper globalisation" hypothesis that the states have declined in importance. However, the revenue generating capacity of the central government has increased everywhere except in Asian countries. The revenue generating capacity of the central government is an important indicator of state strength, which has not declined.[23]

What about the level of state involvement in the social services? While the share of public educational expenditure in the GNP has increased in the developed and Asian countries, it has indeed declined in Latin America and Africa.[24] This particular trend bolsters the argument that although the state may withdraw some of its direct protection, previously granted under the welfare provision, it is likely to increase its involvement in education, hoping to prepare a better and skillful workforce to participate fully in a global economy. To that effect, the share of social services as a percentage of total central government expenditure has increased in all major world regions during 1990-1998.[25]

Conclusion

The paper was an attempt to investigate the impacts of globalisation on related dimensions of inequality and poverty worldwide. In addition, it examined the relationship between economic globalisation and the state in major world regions. It finds that economic globalisation has affected all major world regions. The phenomenal exports growth in recent years demonstrates such a trend. Related indicators of poverty have showed desirable trends. The under five mortality rate has declined significantly by the end of the 1990s. The per capita consumption of electric power has increased impressively, most notably in Asia and Latin America. However, contrary to the hypothesis of "hyper-globalisers" the role of the state has also increased in critical areas of economic, social, and educational investment. During the 1990s, the state transfers and subsidies increased everywhere, except in Asia. The revenue generating capacity of the central government has largely remained intact; in fact, it has increased in all major world regions except in Asia. In addition, the social service portion of the total central government expenditure has increased in all major world regions.

It is, therefore, argued that the level of state involvement in social services and education as well as in the provision of subsidies and transfers are more a function of domestic political bargaining among competing groups. As the forces of economic globalisation unfold hand in hand with the forces of democratisation, this is bound to be so. In addition, the differential rates across major world regions can perhaps be better explained by examining the nature of political resources of the competing groups, the extent of their access to institutional power, and the degree to which major political parties place these competing demands on the state.

End Notes

1. For the first group, see J. Habermas, "The European Nation-State And The Pressures of Globalization", *Blatter fur deutsche and International Politik,* 1998, pp. 425-36 and J. Saurin, "Globalization, Poverty, and the Promises of Modernity," *Millennium: Journal of International Studies*, 25, 1996, pp. 657-80. For the second group, see S. Riain, "States and Markets in an Era of Globalization," *Annual Review of Sociology*, 26, 2000, pp. 187-213. For the third group, see S. Pattnayak (ed.), "Globalization, Urbanization, and the State", Lanham, MD: University Press of America, 1996 and J. Therien, "Beyond the North-South divide", *Third World Quarterly*, 20, 1999, 723-742.
2. *The World's Children,* UNICEF, 1999.
3. The World Bank, *World Development Report*, 1999, 2000, and various issues.
4. *Human Development Report*, UNDP, various issues.
5. *World Development Report*, 2000, p. 309.
6. For example, see G. Firebaugh, "Growth Effects of Foreign and Domestic Investment," *American Journal of Sociology*, 98, 1992, pp. 105-30; also see G. Firebaugh and F. Beck, "Does Economic Growth Benefit the Masses in the Third World," *American Sociological Review,* 100, 1994, pp. 631-53.
7. Calculated from the *World Development Report,* 2000.
8. For example, see V. Navarro, "Neo-liberalism, Globalization, Unemployment, Inequalities, and Welfare State", *International Journal of Health Services*, 28 (1998): 607-82.
9. Calculated from the *World Development Report*, (2000).
10. Ibid.
11. Ibid.
12. See J. Bhagwati, "Directly Unproductive Profit Seeking (DUP) Activities", *Journal of Political Economy,* 90, 1982, pp.988-1002.
13. For example, see J. Williamson (ed.), *Latin American Adjustment*, The World Bank, 1990.
14. See P.T. Bauer, *Reality and Rhetoric: Studies in the Economics of Development*, London: Weidenfield and Nicolson, 1984.
15. T. Iversen and T. Cusack, "The Causes of Welfare State Expansion," *World Politics*, 52, 2000, pp. 313-49.
16. D. Rodrik, "Why Do More Open Economies Have Larger Governments?", *Journal of Political Economy*, 106 1998.
17. G. Garrett, "Capital Mobility: Trade and the Domestic Politics of Economic Policy", *International Organization*, 1995, 49.

18. For a review of literature in this regard, see Iversen and Cusack, no. 16.

19. P. Evans, “The Eclipse of the State?”, *World Politics*, 50, 1997, pp. 62-87.

20. See S. Pattnayak, *Economic Liberalization, Political Freedom, State, and Social Inequality in Latin America,* in L. Gustafson and S. Pattnayak (eds.), “Economic Performance under Democratic Regimes in Latin America in the Twenty-First Century”, New York: Edwin Mellen, 2003, pp. 67-94.

21. G. Esping-Andersen, “The Sustainability of Welfare States into the Twenty-first Century,” *International Journal Of Health Services*, 30, 2000, pp. 1-12.

22. Calculated from *The World Development Report*, 2000.

23. Ibid.

24. Ibid.

25. Ibid.