DESA Working Paper No. 3
ST/ESA/2005/DWP/3

October 2005

Policy Reform and Income Distribution

Giovanni Andrea Cornia

Abstract

The paper analyses the relationship between within-country income inequality and policies of domestic liberalization and external globalization. The models used to provide the rationale for such reforms—such as the Hecksher-Ohlin model—usually predict a decline in inequality. However, the evidence shows that inequality often rose with the introduction of such reforms. The paper tries to explain this discrepancy by identifying the conditions under which the models' conclusions do not hold. Indeed, such models are based on a simplified view of reality and restrictive assumptions, and their predictions do not necessarily hold in conditions of institutional weakness, structural rigidities, inefficient markets, asymmetric information and persistent protectionism.

JEL classification: D31 (Personal Income and Wealth Distribution); D33 (Factor Income Distribution); E69 (Macroeconomic – Aspects of Public Finance, Macroeconomic Policy: Other); F02 (International Economic Order; Economic Integration: General).

Keywords: trends in income inequality, factor income distribution, policy reform, structural adjustment, globalization.

Since 2000, **Giovanni Andrea Cornia** has been Professor of Economics at the University of Florence. Between 1995 and 1999, he was the Director of the United Nations University's World Institute of Development Economics Research (UNU-WIDER) in Helsinki. Before that, he held research positions in various UN agencies and the private sector.

Contents

Copy editor: *June Chesney*

Typesetter: *Valerian Monteiro*

United Nations
Department of Economic and Social Affairs
2 United Nations Plaza, Room DC2-1428
New York, N.Y. 10017, USA
Tel: (1-212) 963-4761 • Fax: (1-212) 963-4444
e-mail: esa@un.org
http://www.un.org/esa/desa/papers

Policy Reform and Income Distribution[1]

Giovanni Andrea Cornia

Broad trends in income inequality

Domestic income inequality declined steadily between the early nineteenth century and the mid-1970s (Bourguignon and Morisson, 2002). Until the 1950s, this decline was mainly evident in today's advanced nations and in the socialist countries of Europe; between the 1950s and early 1970s, however, it spread to several developing countries—such as the Asian tigers, China and India—which introduced programmes of land reform, educational expansion, public health and income redistribution after achieving independence.

In spite of such declines, income inequality was still very high in most developing countries in the 1970s, mainly because of the interplay of the 'traditional causes of inequality'—including high land concentration, unequal access to education and other public services, selective access to credit, the dominance of the mining or plantation sector, and the urban bias of public policy, which allowed city-based elites to capture a disproportionate share of economic opportunities. Racial and gender discrimination were also important for inequality, and all this was rooted in social systems in which the poor and the lower-middle class had limited ability to organize, influence policy and defend their interests.

From the mid-1970s, income inequality started turning upwards in the Organization for Economic Cooperation and Development (OECD) countries (Smeeding, 2002) and in Latin America (Székely, 2003). The 1990s witnessed a sharp rise in income polarization in the economies in transition (Milanovic, 1998). Meanwhile, in China, inequality rose slowly from 1978 to 1985, after which it rose faster (Riskin, 2003). A trend reversal also took place in the Asian tigers (Jomo, 2004), India (Deaton and Drèze, 2002) and other South Asian nations (Pal, Sengupta and Ghosh, 2004), albeit later, less markedly and from lower initial inequality levels. The limited data available for sub-Saharan Africa suggest that, following structural adjustment, the urban-rural income gap was reduced by a process of 'equalizing downward' (as in Côte d'Ivoire), though intra-urban inequality rose, while intrarural inequality rose in countries characterized by high land concentration such as Kenya, or where recovery was peasant-based, but failed to reach remote areas, as in Zambia. Meanwhile, income inequality improved in countries characterized by a peasant agriculture rebounding from years of civil strife, such as Mozambique and Uganda (McCulloch, Baulch and Cherel-Robson, 2000; Bigsten, 2000). Data limitations do not allow any conclusion for the Middle East and North African (MENA) region, though the fragmentary evidence available seems to point to substantially stable income inequality.

As a result, over the last 25 years, income inequality appears to have risen to various extents and with different effects in 70 per cent of the countries with inequality data, representing 80 per cent of the world population and gross domestic product (GDP) (Cornia with Kiiski, 2001; Cornia (ed.), 2004).[2] Except for Africa and MENA, these countries accounted for 84 to 98 per cent of the population and for

1 The following draws on the second half of Cornia (2004).

2 Cornia with Kiiski (2001) carried out an empirical test on the trend changes in income inequality based on the November 1998 version of the World Income Inequality Database of the World Institute for Development Economics Research (WIDER) using 770 reliable Gini coefficients for seventy-three countries (thirty-four developing, twenty-three transitional and sixteen OECD countries) accounting for 80 and 91 per cent of the world population, and GDP-PPP (purchasing power parity), spanning the period from the mid-1950s to the mid-1990s.

82 to 98 per cent of the GDP-PPP of their respective regions. Inequality was found to have risen in 48 countries, to have remained constant in 16, and to have declined in nine. There were notable exceptions to the dominant trend of growing inequality—e.g., France, Germany, Malaysia and Jamaica—but these did not reverse the general trend.[3]

The observed increase in Gini coefficients in the 53 (out of the 73 tested) nations exhibiting growing inequality was moderate (more than 5 points) or high (5-10 points) in about thirty-five countries. Increases of 10-20 points were recorded in fourteen countries, and increases of more than 20 points in three States of the former Soviet Union. While inequality rises of 3-5 points from low initial levels may spur economic growth, large increases (as in the former Union of Soviet Socialist Republics (USSR)) or moderate increases from already high levels (as in Latin America) probably negatively affect poverty alleviation and economic growth.

The recent rise in income inequality cannot be attributed to a worsening of the traditional causes of inequality mentioned above. While high land concentration remains a major cause of rural and overall inequality, such changes cannot, as a rule, explain income inequality trends over the last two decades. Indeed, the weight of agriculture in total output and employment fell everywhere, and highly inequitable land rents declined, as a share of both GDP and agricultural output. Likewise, while countries well endowed with mineral resources are known to have high income and asset inequality, this 'curse of natural resources' hardly explains the increase in inequality over the last two decades, as the 'rent/GDP ratio' systematically declined in most mining or plantation economies from the late 1970s. Third, the apparent 'urban bias' in a more globalized world (Eastwood and Lipton, 2000) has increased in post-1984 China, Thailand and Indonesia, but has declined in Latin America and parts of Africa. Finally, worsening inequality in education is unlikely to offer a general explanation for the recent deterioration in the distribution of income. In fact, while more unequal access to education has contributed to greater income inequality during the last two decades in Latin America, this does not seem to have been the case in other regions (Checchi, 2004).

The recent rise in inequality could also be due to 'new non-policy factors' such as skill-biased technical change, shifts in labour market participation, demographic effects and rising migrant remittances. Space limitations do not allow a careful review of these hypotheses. While these factors do affect the distribution of income in specific situations, none of them generally explains the deterioration over the last twenty years in distinctly different types of countries.

One reason why these explanations are either incomplete or misplaced is the mounting evidence that the recent increase in inequality has been associated with a rise in the 'capital share' of total income, and corresponding falls in the 'labour share' and the 'transfer share'. This shift was caused by the effects of liberalization and globalization policies that weakened labour institutions, raised interest rates and interest spreads, led to insider privatization as well as rising asset concentration and rents in the financial and real estate sector, reduced progressive redistribution via the budget, and exacerbated regional disparities.

In a number of cases, the rise in capital share was very pronounced. In the United Kingdom of Great Britain and Northern Ireland, for instance, the income share of the top one per cent of the popula-

3 Up until 7 or 8 years ago, many analyses (Li, Squire and Zou, 1998) suggested that inequality indices had remained relatively stable over time. As noted, this is no longer the prevailing view in the literature, as new data and analyses point to a fairly general increase in domestic income inequality.

tion (with 60 per cent from capital income) rose over 1979-2001 from 21 to 34 per cent, suggesting that the capital share rose by at least 8 percentage points (Atkinson, 2003). Likewise, in South Africa, the share of profits, rents and other property incomes rose from 18 to 30 per cent of total income from 1981 to 2000. In the case of India, Banerjee and Piketty (2001) show that the share of total income accruing to the top one per cent of income earners in the late 1990s increased from 4 per cent to almost 11 per cent. Thus, though such data are still fragmentary, the evidence suggests the distribution changes of the last two decades might be associated with a shift in factor shares, rising spatial inequality and greater wage differentials unexplained by human capital theory. Scattered, but growing, evidence in this regard is available for countries as different as Argentina, Canada, Chile, Japan, Mexico, the Russian Federation, Thailand, Turkey, United States, Uzbekistan and The Bolivarian Republic of Venezuela.

Thus, while the traditional causes of inequality still contribute to social polarization, there is mounting evidence that—contrary to the predictions of mainstream theory—recent policy changes, associated with domestic liberalization and globalization, have often been associated with rising income inequality, as will be explored in greater detail in the next section. Thus, understanding the relationship between policy reform and income inequality is essential for any effort at reducing poverty over the medium term, as in the case of the Millennium Development Goals (MDGs). This is all the more true in view of the possible interaction between the old 'structural' causes of inequality and the new 'policy-related' ones.

This paper reviews the changes in within-country income inequality that have accompanied the recent liberalization of the domestic economy and external transactions. It argues that the conclusions of standard theory about the ex ante distributive impact of policy reform often collide with a substantial body of empirical evidence indicating that inequality rose following liberalization and globalization. Finally, the paper explores the causes of the discrepancy between theoretical predictions and observed inequality trends for each major policy change by emphasizing the impact on inequality of poorly sequenced macroeconomic policies, incomplete markets, weak institutions, asymmetric information, widespread protectionism and structural rigidities.

External liberalization and inequality

Trade liberalization

The Hecksher-Ohlin (HO) theorem predicts that trade liberalization will lead to greater specialization and a rise in national income in all participating countries, following a more rational global allocation of production inspired by the principle of comparative advantage. In labour-abundant countries, trade liberalization is expected to switch production from inefficient capital-intensive import substitutes to efficient labour-intensive exports. In turn, the Stolper-Samuelson (SS) corollary to the HO theorem posits that such shifts will lead to convergence in the prices of goods exchanged and in factor remunerations. Because of this, domestic inequality is expected to decline in countries endowed with an abundant labour supply and to rise in those with an abundant endowment of capital, as the demand and remuneration for the latter (unequally distributed) will increase, while the demand and remuneration for labour (distributed more equitably) will fall.

However, the empirical evidence of the impact of trade liberalization on inequality is mixed and does not always support the conclusions of HO-SS model. Several studies point to the equalizing effect of free trade. In the nineteenth century, trade liberalization raised domestic inequality in rich New World countries, but reduced it in the poor Old World countries. Likewise, in an analysis of thirty-five small developing countries, Bourguignon and Morisson (1989) conclude that the removal of trade protection in manufacturing reduced the income share of the richest 20 per cent of the population and raised that of the bottom 60 per cent. Wood (1994) arrives at a similar conclusion for East Asian exporters of labour-intensive manufactured goods.

An equally important body of literature points to the opposite conclusions for a broad range of countries. For instance, wage inequality was found to have increased in six out of seven Latin American countries that had liberalized trade, as well as in the Philippines and Eastern Europe (Lindert and Williamson, 2001). An analysis of 38 developing countries for the years 1965-1992 found that trade liberalization benefited the richest 40 per cent, while negatively affecting the bottom 40 per cent, who were hurt by greater fluctuations in the terms of trade following the opening of the economy (Lundberg and Squire, 1999). Savvides (1999) showed that the most open developing countries experienced a rise in inequality between the 1980s and the early 1990s, and a positive correlation between trade protection and the income share of the poorest quintile.

How can one explain these conflicting findings and the frequent discrepancies between empirical results and theoretical predictions? To start with, it must be underscored that the HO-SS theorem holds under very restrictive assumptions concerning trade between two countries producing two goods with two factors (capital and labour), using the same technology that remains constant over time. The model also assumes no economies of scale, efficient factor markets (characterized by free factor mobility and full employment of all factors), balanced trade and symmetric trade liberalization by all trading partners. Yet, in the real world, trade takes place in a multi-country, multi-factor and multi-goods context, in which most of the above assumptions do not hold. Indeed, a formal extension of the HO-SS model shows that the predicted efficiency and equity outcomes may not be obtained if some basic assumptions are relaxed. Alternative explanations of why inequality may rise after trade liberalization are provided below.

Changing relative endowments of countries participating in multi-country, multi-factor and multi-goods trade

The limitations of the 2x2x2 HO model are most obvious when considering the case of trade among countries whose relative comparative advantages evolve over time because of changing trade policy decisions by some other country. Country A, for instance, may have a comparative advantage in terms of unskilled labour in relation to country B, but not to country C, which has yet to liberalize its trade regime. Thus, a decision to liberalize exports by the latter may have distributional consequences for A. In particular, the prediction that A will experience a reduction in inequality due to greater trade with B is unlikely to be fulfilled as its labour intensive exports will be displaced by those of C. It may even be the case that because of C's decision to liberalize trade, A will specialize in the production of goods with medium-high skill and capital content, with the effect of worsening its wage distribution. This is what happened in the 1990s, when entry into the world market of labour-intensive manufactures by several low-wage Asian economies affected the exports and comparative advantage of middle-income countries in Latin America, Eastern Europe and South-East Asia.

Mexico's experience from 1985 to 1990 is another well documented case of this type of situation (Alarcon and McKinley, 1998). In Chile, Costa Rica and Colombia, increasing openness raised inequality, owing to the contraction of high-skill import-substituting sectors (replaced by imports from developed economies), the expansion of the semi-skilled sectors (including agriculture) and the contraction of low-skill intensive sectors due to rising imports from low-income countries (Wood, 1995).

Liberalization in countries specializing in the export of primary commodities

The primary commodities sector has been subjected to considerable price shocks—because of both sudden variations in global demand and the 'fallacy of composition' problem caused by the growing number of suppliers entering saturated markets. Over the past two decades, these price shocks have reduced the trade/GDP ratio in most commodity-producing countries despite liberalization of their trade regimes (Birdsall and Hamoudi, 2002). These price collapses reduced their export receipts and import capacity, leading to declines in employment and earnings in the import-substituting sector (usually not fully compensated by growth of the export sector) and worsening income distribution.

Trade liberalization in countries with unequal distribution of the abundant factor

The standard HO-SS model also fails in the case of countries exporting primary commodities produced by means of an unequally distributed abundant factor. While an increase in land-intensive agricultural exports may reduce inequality in countries with egalitarian agrarian structures, it could actually raise inequality in countries dominated by latifundia. Due to the labour surplus prevalent in the rural labour market, it is unlikely that increased demand for agricultural workers will raise the subsistence wage in line with or faster than the increased export receipts.

Trade liberalization and the import of skill-enhancing investment goods

One assumption of the HO-SS model is that production technologies utilized by the trading countries are not affected by trade itself. Yet, trade liberalization can increase access to previously restricted technologies or raise imports of capital-intensive investment goods by relaxing foreign exchange constraints. With capital-skilled labour complementarities, this 'skill-enhancing trade' may increase demand for and wages of skilled workers and reduce those of unskilled workers.

Asymmetric trade liberalization and protectionism among trading partners

Another assumption of the basic trade model is that trade liberalization occurs in all trading partners. However, in the case of 'low-tech' African and Asian exporters, trade liberalization has led to unsatisfactory export growth, not only because of weak domestic conditions, but also because of persistent protectionism in OECD countries. Furthermore, OECD countries have not abandoned the policy—forbidden under World Trade Organization rules—of subsidizing entire sectors of agriculture and exporting their products at prices below their production costs. Thus, in most cases, unilateral liberalization, combined with restrictive trade practices by trading partners, can raise inequality and poverty in low-tech exporters, as employment and incomes in the previously protected sectors decline while jobs and wages in the export sector stagnate.

Factor immobility

In a liberalized trade regime, it is essential that workers are able to move from the declining import-substituting sector to the expanding export sector. Yet, structural rigidities and governance problems may hamper the reallocation of resources towards the export sector because of restrictions on internal migration (as in Uzbekistan), lack of infrastructure and/or housing where the tradable sector is located (as in some sub-Saharan countries), labour laws limiting the transfer of workers across industries (as in India), shortage of retraining programmes to reskill the workers made redundant in the formerly protected sector (as in transitional economies), lack of social safety nets to assist redundant workers until they find new employment (as in China), narrow credit markets and lack of new investments to absorb labour moving to the tradable sector. For these reasons, trade liberalization can lead to a fall in employment and earnings in the import-substituting sector without generating a corresponding rise in jobs and wages in the export-oriented sector. The impact on inequality is unclear, while the impact on poverty is unfavourable.

In a detailed study of the impact of trade liberalization in India, Topalova (2004) found that rural districts with the highest density of industries exposed to liberalization experienced the sharpest increase in the incidence of poverty owing to limited factor mobility across regions and industries. Topalova suggests that the impact of trade liberalization was particularly pronounced in the Indian States where rigid labour laws hampered the reallocation of labour across industries. However, the limited spatial mobility of rural labourers most adversely affected by liberalization suggests that other factors stand in the way of effective factor mobility.

Trade reorientation following capital account liberalization

The interaction between trade and capital account liberalization is another explanation that has received little attention. Sudden inflows of foreign capital can result in the appreciation and increasing instability of the exchange rate, shifting the composition of domestic demand towards cheap imports and away from domestic products, while rendering exports less competitive (Taylor, 2000). All this leads to the cancelling out the supposed positive effects of trade liberalization, as it encourages the restructuring of production via a reduction in formal employment and wages and greater reliance on outsourcing, i.e., measures that reduce the absorption of unskilled labour and increase wage inequality.

Liberalization of foreign direct investment

The predictions of economic theory about the distributive impact of foreign direct investment (FDI) are similar to those of international trade. In low-wage labour-abundant countries, 'greenfield FDI' accelerates capital accumulation and raises the demand for and (under certain conditions) the wage rate of unskilled workers. FDI may also offer better employment conditions and higher wages to all workers, regardless of their skill level, than the informal or even formal domestic sectors. The distributive impact of 'brownfield FDI' is less straightforward, as the possible long-term gains in efficiency have to be weighed against short-term retrenchments in employment that may cause an adverse distributive impact.

Evaluations of wages and employment conditions in firms controlled by transnational corporations (TNCs) and export processing zones provide mixed results about the impact of FDI. Te Velde and Morrissey (2002) found that FDI raised wages of different skill levels in four of the five East Asian countries analysed. In Mexico, in contrast, the increase in wages due to FDI was significantly lower for the unskilled than for the skilled workers (Alarcon and McKinley, 1996).

Sectoral composition of FDI

The theoretical advantages of FDI are most often observed in labour-intensive manufacturing branches such as textile, apparel, food processing, furniture, toys, beverages and assembly operations but are less evident in capital-intensive manufacturing and in the utility and mining sectors. In the latter sectors, production requires a lot of capital, little unskilled labour and some skilled workers. This reduces the demand for and wages of unskilled labour. In the resource sector, the volatility of commodity prices and employment conditions reduces the incentives to invest in education, negatively affecting the long-term distribution of income. Income inequality in the mining sector is usually very high as the ownership of mines is typically highly concentrated, with mining rents captured by the élite without much effort.

FDI in these sectors is, therefore, likely to raise inequality, through both the labour market and political economy mechanisms. In addition, when FDI involves mergers-and-acquisitions, the immediate effect is labour shedding following firm restructuring and consolidations among firms, with probable net job losses (Baldwin, 1995). While this might improve the microeconomic efficiency of firms over the medium term, the immediate effect is likely to be inequitable.

The overall distributive effect of FDI thus depends on its composition. Evidence shows that while the ratio of the combined stock of FDI rose from 19.2 per cent of world GDP in 1990 to 34.0 per cent in 2000, the sectoral composition of new FDI has shifted towards utilities, finance and trade-related services and away from mining and manufacturing. A big share of FDI is increasingly taking the shape of cross-border mergers and acquisitions, rather than greenfield projects—a trend that merely entails the transfer of existing jobs from domestic to foreign owners.

Substitution effect and 'business stealing'

Even when greenfield FDI is directed to the labour-intensive sector, its net effect on employment and income distribution has to take into account its various impacts on the local economy. This is especially important when output is sold on local markets that used to be supplied by domestic firms, which face the risk of being displaced by FDI, leading to job losses in the labour-intensive informal sector. As the latter is likely to have lower labour productivity and higher employment coefficients per unit of output than foreign firms, a full displacement of their output tends to worsen the distribution of income.

North-south plant relocation and skill-biased technical change

A further refinement of the basic model involves the technology that a multinational seeking lower wages is likely to transfer to a developing country. While such technology may be considered to be of low-skill intensity for an advanced nation, it might be relatively skill-intensive in a developing country hosting the FDI. For instance, the outsourcing of production from the United States to the maquiladora sector in Mexico raised demand for unskilled labour in the United States (and so contributed to the rise in the skilled/unskilled wage gap) and simultaneously increased demand for what is considered skilled labour in Mexico, thus raising wage and overall income inequality in both countries (Feenstra and Hanson, 1997). New evidence from China and India suggests that FDI is becoming increasingly skill-biased in countries well endowed with cheap, literate and well trained labour.

Regional distribution of FDI and spatial inequality

One of the possible adverse effects of FDI is the increase in spatial inequality. This depends on the industrial policy of the host country that often tries to locate the FDI in more developed and accessible areas. In China, for instance, the FDI policy pursued by the local authorities between 1978 and the mid-1980s deliberately favoured the southern coastal provinces by granting special tax and duty exemptions besides relaxing labour laws. Such FDI-preferential policies were extended to the whole of China only after 1992. However, foreign investors continue to enjoy greater incentives in the coastal areas. For instance, the average ‘preferential policy index’—computed by Demurger and others (2002) for 1996-1999—was 3.0 for the three main metropolises, 2.4 for typical coastal areas and only 1.3 for the central and north-western provinces. In many cases, however, the spatially inequitable effects of FDI may have been largely endogenous, as foreign investments are attracted by economies of scope and agglomeration as well as externalities existing in comparatively advanced areas. There is evidence that FDI naturally flows to areas well endowed with public infrastructure, transport facilities and industrial services, despite higher wages.

Systemic effects in a world of mobile capital and immobile labour

The mobility of capital and immobility of labour may generate strong competition among developing countries simultaneously attempting to attract FDI. These countries may thus engage in a ‘race to the bottom’, in which all of them make concessions to the multinational companies in terms of taxation, subsidies, labour and social security legislation, minimum wages and so on that may affect the distribution of private/public consumption and the welfare of workers. While wages in the multinational sector tend to be higher than in local firms, these wage and employment benefits may only be felt by the employees concerned. In the countries bypassed by FDI, the ex-ante concessions made to attract them may generate temporary or permanent costs unmatched by benefits.

Capital account liberalization

Mainstream theory maintains that capital account liberalization raises investment, employment, labour productivity and growth in countries with low capital accumulation, but with high rates of return on investments and an abundant supply of cheap labour. This raises employment and—possibly—wages in countries receiving these funds, with favourable effects for equity. In addition, the liberalization of portfolio flows permits the diversification of the financial assets of domestic investors, leading to a balancing of the risk profile of their portfolios, thus favourably affecting the national savings rate. Finally, capital account opening is supposed to exert a ‘disciplining effect’ on domestic policies in the fiscal and monetary areas, contributing to macroeconomic stability and credibility. Yet, empirical evidence points to widespread deterioration in income inequality following both inflows and outflows of funds, as documented for a large number of episodes in the 1990s. Possible explanations for this discrepancy include:

Appreciation of the real exchange rate due to large inflows

Large inflows of funds relative to domestic assets generally cause appreciation of the real exchange rate that reduces employment in the tradable sector, shifts resources from the tradable to the non-tradable sector and encourages subcontracting and wage cuts in the tradable sector to preserve or raise profit margins (Taylor, 2000). Countries can attempt to control exchange rate appreciation via costly sterilization of inflows or regulation, but both measures only work up to a point.

Intersectoral allocation of portfolio flows

Portfolio flows do not directly benefit the poor, as they tend to be invested in finance, insurance and real estate (FIRE) activities that have high short-term rates of return and a perceived low risk profile, while employing medium-to-highly skilled workers whose wages rise together with the skilled/unskilled wage differential. In addition, the credit boom associated with the inflow hardly reduces credit market segmentation between those who can collateralize their loans and those who cannot, for lack of guarantees. During financial crises, credit allocation becomes particularly skewed as de-capitalized banks may reduce their lending and restrict allocation to preferred borrowers (large firms, for example). Given the proliferation and greater labour-intensity of small and medium-sized enterprises (SMEs) in developing economies, such ‘credit starvation’ can have serious poverty and inequality consequences.

Sudden capital outflows and financial instability

Capital account liberalization also increases the frequency of destabilizing financial crises with real effects. Left to themselves, deregulated financial systems do not perform well, owing to incomplete information, markets and contracts, herd behaviour, panics, weak supervision and asset price speculation. Indeed, as noted in a recent International Monetary Fund (IMF) paper (Prasad and others, 2003), there is no evidence that international capital flows accelerate the rate of growth in recipient countries, while there is clear evidence that they raise the instability of private consumption, with clear short and long term effects on poverty, as people in developing countries have poorer access to financial markets and cannot smoothen their consumption streams over time.

The empirical evidence suggests that the distributional impacts of financial crises have generally been negative, particularly in countries with weak labour institutions and social safety nets. Galbraith and Lu (1999) found that financial crises raised inequality in 73 per cent of cases in Latin America and 62 per cent of cases in Asia, while no impact was evident in Finland, Norway and Spain. Similarly, Diwan (1999) found that the share of labour income contracted markedly and irreversibly in the wake of financial crises. Some analyses have shown that during the first phase of such crises, income inequality may fall as the comparatively better paid workers of the FIRE sector are the first to be affected. However, the medium-term impact on inequality—transmitted by way of differential employment, wage and price effects—affects the lower deciles especially hard (Levinshon, Berry and Friedman, 1999).

Bailouts of the banking system

Large financial crises induce a medium-term worsening of inequality because of the huge costs of their resolution through recapitalization of the banking sector, bailouts for depositors and debt relief for borrowers with public money, new taxes or foregone progressive expenditures, i.e., measures that entail redistribution from the poor to the rich in the financial sector. The average cost of bailouts in emerging economies was 14.7 per cent of the GDP of the countries affected (Halac and Schmuckler, 2003). In addition, only a few privileged participants received most of these transfers, particularly large, foreign and more informed depositors as well as borrowers. The transfers go from poorer to richer households, with clearly inequitable effects.

Limited migrant flow liberalization

One irony of policy reform over the last two decades has been the limited liberalization of migrant flows between developing and transitional countries on the one hand and developed countries on the other. While migration in the period from 1870-1914 was largely state-sponsored, controlled and assisted, the same cannot be said of migration today, with restricted legal immigration and growing illegal and semi-legal immigration. Illegal migration is inefficient as it imposes large costs on migrants, enriches organized crime, increases expenditure for repression and deportation, and depresses the wages of illegal migrants. A more open migration policy would reduce income inequality among countries and—under certain conditions—within countries.

The efficiency and equity gains deriving from the current migration policy differ considerably from those observed from 1870 to 1914. During that period, sixty million mostly unskilled people migrated from the European periphery to the New World. The inequality impact of such migration broadly conformed to the predictions of standard theory. The wage and income gap between the countries of the Old and New World were substantially reduced, as globalization increased the relative demand for and the remuneration of the abundant factors and reduced those of the scarce factors. Mass migration from the periphery of Europe to the New World explained most (some 80 per cent) of the drop in the New World-Old World wage gap between 1870 and 1914 (Williamson, 1996; Andersen, 1999).

Globalization also caused a rise in within-country inequality in the rich countries of the New World and a fall in the poor ones of the Old World (Anderson, 1999). In the United Kingdom, Ireland and Sweden, the ratio of unskilled wages to farm rents per acre rose following a drop in the supply of unskilled labour due to migration, growing labour demand in the export-led manufacturing sector and a fall in the prices of agricultural products due to cheap imports. The opposite effects were observed in the New World. While migration drove up unskilled wages and drove down the rental-wage ratio in the Old World, they caused the opposite effect in the New World. In addition, as migrants were mostly unskilled, migration caused a reduction in the skilled-unskilled wage differential in the Old World, but raised the same ratio in the New World. In turn, the flow of European investments to the New World partially offset the local fall in unskilled wages, as they moderated the decline in returns to a growing supply of unskilled labour, and so retarded the rise in wage inequality, while having the opposite effects in the Old World countries that exported capital.

Domestic liberalization and inequality

Domestic financial liberalization

Domestic financial liberalization inspired by the 'financial de-repression hypothesis' was one of the first policies to be introduced in developing countries from the mid- to late 1970s on. The theoretical arguments in support of this policy are that it leads to financial deepening, greater competition, private credit expansion and the creation of bond and stock markets, i.e., measures that raise the savings, investment and employment rates by increasing financial intermediation, with likely positive effects on the distribution of income. Yet, the empirical evidence points to favourable effects in the OECD and a few developing countries but to negative ones in most low-income nations. How can this contradiction between theory and empirical evidence be explained?

Policy sequencing problems;
Financial liberalization in the presence of large budget deficits

In many cases, financial deregulation was introduced in the presence of large budget deficits that could no longer be financed by forcing commercial banks to absorb government debt at artificially low interest rates. To finance their deficit, governments were obliged to create domestic bond markets in which to sell large amounts of treasury bills. Because of the lack of credibility and the considerable volume of bond issues, interest rates often rose markedly in both nominal and real terms, with the increase being quickly transmitted to the rest of the financial sector. This shifted the distribution of income in favour of lenders, who generally belonged to high income groups, and against borrowers, who belonged to the low-to-medium income groups.

Failure to create competition in the domestic financial sector

Contrary to expectations, liberalization and privatization failed—especially in the 1980s—to increase competition in the financial sector. While the balance sheets of banks improved, the industry was transformed from a public to a private oligopoly in most cases, as signalled by highly inequitable rises in real rates and spreads after liberalization. Even the entry of foreign banks did not raise competition, as these banks concentrated on the few low-risk customers while neglecting most potential small borrowers. All this meant that the actual credit expansion was much lower than expected, and that the poor continued to be excluded from the formal credit market.

Weak regulatory capacity, financial instability and mounting banking crises

Financial liberalization was introduced without prior strengthening of the regulatory and supervisory capacities of the central bank and other public institutions. In several cases, the requirements for opening new banks were relaxed. In Latvia, a bank could be established in the early 1990s with only US$20,000. In Nigeria, domestic financial liberalization coincided with the resignation of some central bank staff who moved to the private sector to open new—and difficult to regulate—non-bank financial institutions. In sum, financial deregulation led to a highly inequitable increase in financial instability in many cases, as reflected by the rise in the frequency and severity of financial crises in recent years.

Discrimination against SMEs

While repressed financial systems may have allocated credit highly inefficiently, the distributive effects of financial liberalization were often regressive, e.g., with the elimination of directed (and often subsidized) credit to small and medium-sized enterprises and to agriculture. The typically anti-rural bias of these reforms and risk-minimization by bank branches reduced the volume of credit to the agricultural sector. For instance, financial reforms in China lowered the number of rural credit cooperatives from over 58,000 in 1995 to 41,000 in 2001 (Pal, Sengupta and Ghosh, 2004). In India, financial liberalization eased the lending norms requiring national banks to assign a certain share of total credit to agriculture and to SMEs. As a result, most banks avoided lending to small farmers and small industries perceived to be less creditworthy, though evidence shows that this perception was groundless (Pal, Sengupta and Ghosh, 2004). The resulting credit crunch deprived the relatively poor of credit for investing in their business. Except in countries with vibrant private credit markets, the closure of rural bank branches and abolition of dedicated credit lines forced small entrepreneurs and peasants into the clutches of often usurious informal moneylenders.

United States high interest rate policy

In many countries, the financial sector was deregulated between 1982 and 1993, i.e., a period during which the United States Federal Reserve followed a policy of high interest rates. Such liberalization and the IMF demand for large increases in interest rates in adjusting countries fuelled a worldwide rise in real interest rates to well above the secular trend of 2 to 3 per cent. As a result, several governments entered a vicious circle in which rate increases augmented the cost of debt servicing, which further pushed the budget deficit and indebtedness level upwards. In a number of middle-income and industrialized countries with large stocks of debt, this policy raised the cost of public debt servicing to almost 15 per cent of GDP (UNCTAD, 1997). The net effect of all of this was regressive, as tax incidence is broadly proportional, while ownership of financial assets is highly concentrated in developing countries. Thus, financial deregulation appears to have raised the rate of return to financial assets and the share of GDP accruing to non-wage incomes, and to have redistributed labour income to holders of state bonds via the budget.

Labour market liberalization

Neoclassical labour theory suggests that the liberalization of wage formation is likely to raise both employment (as enterprises are more willing to hire workers at lower wages) and wage dispersion (as workers with more human capital receive higher wages than in the past). The net distributive impact of these mutually offsetting effects is indeterminate as it depends on their relative significance. A second prediction of neoclassical theory applied to dualistic labour markets is that the abolition of minimum wage and other regulations in the formal sector raises employment and reduces the formal-informal sector wage gap, a beneficial outcome in countries with a small labour élite employed in a capital-intensive sector and a large low-wage informal sector.

Yet, with the exception of some East Asian countries, evidence over the last two decades points to an excess of negative over positive effects. For instance, liberalization of the labour market in Latin America was accompanied by slow employment creation, growing informalization, an erosion of minimum wages and greater overall wage inequality. Behrman, Birdsall and Székely (2000), for instance, show that wage differentials rose in 18 Latin American countries after liberalization of the labour market. Similar patterns were observed in some OECD and transitional countries and, lately, in the Republic of Korea, a recent OECD member. In Eastern Europe, the fall of minimum wages relative to the average wage correlated closely with the rise in earnings inequality (Cornia, 1996). In contrast, earnings concentration did not increase in a few OECD and other countries that have preserved collective bargaining institutions and adequate minimum wage levels. Some possible explanations for this gap between theory and trends follow.

Adverse effects of changes in labour institutions

The abolition of minimum wages might not stimulate labour demand, as the labour demand curve can be inelastic in a particular range, while the wage decline increases poverty and inequality. While weakening trade unions may reduce labour market rigidities, a low rate of unionization may also adversely affect social cohesion, incentives and industrial relations.

Erosion of the 'reference norm' and the rise of the P90/P10 ratio

Mounting wage inequality following liberalization was also found to be associated with a rapid surge in the highest wages, rather than with falls in the bottom wages, a fact unexplained by human capital theory, but possibly related to the expansion of the finance, insurance and real estate (FIRE) sectors and to changes in social norms for the remuneration of highly skilled people. For instance, recent increases in wage inequality in the United States and the United Kingdom might be explained by the spread of 'winner takes all' remuneration packages for top professionals and greater recourse to stock options for executive compensation.

Labour market liberalization with open trade and capital accounts

In Latin America and the former Soviet bloc, the liberalization of labour markets coincided with the opening up of foreign trade and capital movements. As noted earlier, these changes on the export front led to wage compression and the shift of labour, either to the high-wage non-tradable FIRE sector or to low-wage informal subcontracting, increasing wage inequality.

Tax reforms

Tax reforms have been introduced over the last two decades to reduce trade taxes, in order to promote a more efficient international allocation of resources and to simplify unnecessarily complex and inefficient tax regimes characterized by a large number of taxes, deductions and exemptions. In addition, the progressiveness of wealth and other direct tax rates was reduced to minimize 'efficiency costs' (i.e., reduced labour supply due to high tax rates) and stimulate supply responses. At the same time, greater emphasis was placed on 'horizontal equity' (i.e., loss of equity and revenue due to numerous tax exemptions and evasion) by eliminating exemptions and improving collection. Under this new regime, the loss of revenue—caused by the elimination of trade taxes and the reduction in direct taxes on corporations—was to be compensated for by broadening the tax base through the reduction of exemptions and the introduction of value-added tax (VAT).

Although the impact of these reforms varied from country to country, the general trend has been towards lower yields and more regressiveness. In an analysis of whether tax changes contributed to the rise in income inequality over the previous fifteen years, Atkinson (2000) notes that the direct tax schedule became less progressive in all six OECD countries, although this was offset in part by broadening the tax base in three of them. A comprehensive study of tax reforms since the mid-1970s for developing countries by Chu, Davoodi and Gupta (2000) points to an average drop of one percentage point in the tax/GDP ratio between the 1980s and the 1990s (as opposed to a rise of 1.6 percentage points between the 1970s and 1980s) and a decline in the share of direct taxes and a fall in overall tax progressiveness, all of which correlate with rising inequality. In Latin America, Morley (2000) notes that tax changes shifted the burden of taxation away from the wealthy to the middle and lower classes. Similar evidence is available for Pakistan, where following tax reform, the tax burden on the poor increased by 7.4 per cent between 1987-1998 and 1997-1998, while the burden on the richest households declined by 15.9 per cent (Pal, Sengupta and Ghosh, 2004). What explains these trends that at least partly contradict the predictions of the tax theory summarized above? No detailed analysis is available, but the following hypotheses can be plausibly advanced:

Elimination of trade taxes

In many countries, trade liberalization led to considerable losses in comparatively easy-to-collect import duties and export taxes. In most cases, the decline in revenue from trade taxes was not compensated for by increased revenue generation from other taxes. In India, the reduction of import duties following trade liberalization led to a permanent reduction of the revenue/GDP ratio by almost two percentage points. The revenue decline was compensated for by reducing subsidies on agricultural inputs, rural credit and food subsidies.

Limited impact of tax broadening

The broadening of the tax base (via reduced exemptions and greater efforts in tax collection) had limited effects in terms of revenue generation and horizontal equity, possibly because of institutional weaknesses and political economic factors. In these circumstances, the expected negative effect of the reduced progressiveness of direct taxation prevailed.

Dominance of non-graduated VAT

In many countries, indirect taxes now generate the greatest share of total revenue. When applied at a unified rate to all transactions, such taxes are regressive in impact, while lower indirect tax rates for inferior goods may help preserve the progressiveness of the tax structure. However, the differential rates approach was seldom applied.

Overall impact of the liberalization-globalization package

Mainstream theory claims that the overall policy reform package—made up of policy components generally expected to have progressive effects—will have a progressive impact on inequality. However, the few available studies on the impact of the packages provide a different picture. In an analysis of eighteen Latin American countries during the period from 1980 to 1998, Behrman, Birdsall and Székely (2000) found that the reform packages significantly increased wage differentials in the short term, though this regressive effect declined over time. They also found that the strongest impacts were due to domestic financial reform, capital account liberalization and tax reform. On balance, trade openness had no effect on the wage spread.

Székely (2003), who analysed the impact of policy reform on inequality in nineteen Latin American countries over the period 1977-2000, found that while trade reform did not affect the income share of the bottom three deciles, financial liberalization reduced them significantly. Taxation, labour market and privatization reforms did not appear to impact the income share of the poor. For Székely, the inequitable impact of financial and other liberalizations was clear, while greater trade openness appeared to reduce inequality.

In a review of twenty-one reform episodes in eighteen countries during the previous two decades (Taylor, 2000), income inequality was found to have risen in thirteen cases, remained constant in six and improved in two. Virtually without exception, wage differentials by skill level rose following trade and financial liberalization as a result of the reduction of modern sector employment, rises in productivity and wage concentration by skill within the modern sector, reallocation of excess labour to the low-paying non-tradable sector (informal services and traditional agriculture) and greater inequality within the non-tradable sector. Looking at the impact of liberalization in thirty-two developing and transitional economies for 1980-1995, Cornia with Kiiski (2001) found that while the reform packages had regressive effects overall, the effect was more pronounced in the economies of the former Soviet bloc than in countries with high initial levels of inequality.

Although the above studies do not trace the causal linkages between liberalization and globalization on the one hand and income distribution on the other, the limited evidence reviewed above and other evidence (e.g., Atkinson and Brandolini, 2003) suggest that the overall liberalization package may lead to increased domestic income inequality, especially in economies with weak domestic institutions. Among the factors contributing to this increase are the incomplete switching of resources from the non-tradable to the tradable sector, leading to a fall in modern-sector employment, rising wage differentials within the modern sector, bloating of the informal sector, a lower wage share and a higher capital share linked to increasing banking and financial instability as well as labour market and tax changes. Of the six components of the liberalization package, capital account liberalization appears to have the strongest regressive effect, followed by domestic financial liberalization, labour market deregulation and tax reform. The equity effects of privatization and trade liberalization appear to vary, with progressive effects in some countries and regressive ones in others.

Conclusion

The theoretical models used to promote neoliberal policy reforms are often unable to predict the inequality impact of internal and external liberalization, as they are based on simplistic and highly restrictive assumptions that do not take into account the complexity of the impact of institutional weaknesses, structural rigidities, incomplete markets, asymmetric information, persistent protectionism and the liberalization of trade, finance and labour markets in the real world.

Thus, while some neo-liberal policies can generate positive effects in countries with strong markets and institutions, favourably placed in world markets, and benefiting from FDI in labour-intensive manufacturing and egalitarian privatization, their premature and poorly-sequenced implementation under conditions of asymmetric trade liberalization, incomplete markets, weak institutions, structural rigidities and a dependent position on the world market may generate adverse distributive and growth outcomes. Under these conditions, developing countries should adopt a flexible policy approach and seek greater policy space to experiment with different more gradualist approaches. This requires that the costs and benefits of a policy proposal be assessed in advance and that liberal reforms be postponed in toto or in part until domestic and international conditions ensure reasonable success in implementing them. In some cases, more time may be required to attend to existing problems before liberalization should proceed.

Even under more favourable conditions, developing countries should postpone sine die the liberalization of portfolio flows and reconsider the dominant approach to tax reform, as both policies tend to generate regressive effects, and should therefore be avoided rather than postponed. Finally, the international community should vigorously pursue policies ignored in the neo-liberal package in order to improve the distribution of income in both developing and developed countries. Such policies include lessening restrictions on ‘regulated migration’, stronger global macroeconomic coordination among the major countries to stabilize exchange rates among the principal currencies, and establishment of international safety nets to assist ‘innocent bystander’ countries that have to deal with the negative effects of international financial crises.

References

Alarcon, Diana, and Terry McKinley (1998). "Increasing Wage Inequality Accompanies Trade Liberalization in Mexico". In Albert Berry (ed.). *Poverty, Economic Reform, and Income Distribution in Latin America*. Lynne Rienner, Boulder: 137-154.

Anderson, Edward (1999). "Globalization and Inequality in Historical Perspective". Background paper for the *Human Development Report 1999*. UNDP, New York.

Atkinson, Anthony (2000). "Increased Income Inequality in OECD Countries and the Redistributive Impact of the Government Budget". Working Paper No. 202, World Institute for Development Economics Research, United Nations University (UNU/WIDER), Helsinki.

Atkinson, Anthony, and Andrea Brandolini (2003). "The Panel-of-Country Approach to Explaining Income Inequality: An Interdisciplinary Agenda". Processed, Nuffield College, Oxford University, Oxford.

Banerji, Ajit, and Thomas Piketty (2001). "Are the Rich Growing Richer: Evidence from Indian Tax Data". Processed, MIT, Cambridge, MA and CEPREMAP, Paris. Available at: http://www.worldbank.org/indiapovertyworkshop.

Behrman, Jere, Nancy Birdsall and Miguel Székely (2000). "Economic Reform, and Wage Differentials in Latin America". Working Paper of the Research Department no. 435, Inter-American Development Bank, Washington, DC.

Bigsten, Arne (2000). "Globalization and Income Inequality in Uganda". Paper presented at the Conference on 'Poverty and Inequality in Developing Countries: A Policy Dialogue on the Effects of Globalization', 30 November-1 December, OECD Development Centre, Paris.

Birdsall, Nancy, and Amar Hamoudi (2002). "Commodity Dependence, Trade and Growth: When 'Openness' Is Not Enough". Working Paper No. 7, Center for Global Development, Washington, DC.

Bourguignon, Francois, and Christian Morisson (1990). "Income Distribution, Development and Foreign Trade". *European Economic Review* 34: 1113-1132.

Bourguignon, Francois, and Christian Morisson (2002). "Inequality among World Citizens". *American Economic Review* 92 (4): 727-744.

Checchi, Daniele (2004). "Does Educational Achievement Help Explain Income Inequality?". In G. A. Cornia (ed.). *Inequality, Growth and Poverty in an Era of Liberalization and Globalization*. Oxford University Press, Oxford: 81-111.

Chu, Ke-young, Hamid Davoodi and Sanjeev Gupta (2000). "Income Distribution and Tax and Government Social Spending Policies in Developing Countries". Working Paper No. 214, World Institute for Development Economics Research, United Nations University, (UNU/WIDER), Helsinki.

Cornia, Giovanni Andrea (1996). "Transition and Income Distribution: Theory, Evidence and Initial Interpretation". Research in Progress No. 1, World Institute for Development Economics Research, United Nations University (UNU/WIDER), Helsinki.

Cornia, Giovanni Andrea (2004). "Changes in the Distribution of Income over the Last Two Decades: Extent, Sources and Possible Causes". *Rivista Italiana degli Economisti* 9 (3), December.

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

Cornia, Giovanni Andrea, with Sampsa Kiiski (2001). "Trends in Income Distribution in the Post World War II Period: Evidence and Interpretation". Discussion Paper No. 2001/89, World Institute for Development Economics Research, United Nations University (UNU/WIDER), Helsinki.

Deaton, Angus, and Jean Drèze (2002). "Poverty and Inequality in India: A Re-examination". Working Paper No. 107, Centre for Development Economics, Delhi School of Economics, Delhi. Available at: http://www.cdedse.org/pdf/work107.pdf

Demurger, Silvie, and others (2002). "Geography, Economic Policy and Regional Development in China". *Asian Economic Papers* 1 (1): 146-197.

Diwan, Ishac (1999). "Labour Shares and Financial Crises". Processed, World Bank, Washington, DC.

Eastwood, Robert, and Michael Lipton (2000). "Rural-Urban Dimension of Inequality Change". Working Paper No. 200, World Institute for Development Economics Research, United Nations University (UNU/WIDER), Helsinki.

Feenstra, Robert C., and Gordon H. Hanson (1997). "Foreign Direct Investment and Relative Wages: Evidence from Mexico's Maquiladoras". *Journal of International Economics* 42: 371-93.

Galbraith, James, and Jiaqing Lu (1999). "Inequality and Financial Crises: Some Early Findings". UTIP Working Paper No. 9, LBJ School of Public Affairs, University of Texas at Austin.

Halac, Marina, and Sergio Schmuckler (2003). “Distributional Effects of Crises: The Role of Financial Transfers”. Processed, World Bank, Washington, DC.

Jomo, K. S. (2004). “Growth with Equity in East Asia?”. Paper prepared for the International Forum for ‘Social Development, Equity, Inequalities and Interdependence’, United Nations, New York, 5-6 October.

Levinshon, James, Steven Berry and Jed Friedman (1999). “Impacts of the Indonesian Economic Crisis: Price Changes and the Poor”. Processed, University of Michigan, Ann Arbor.

Li, Honhyi, Lyn Squire and Heng-fu Zou (1998). “Explaining International and Intertemporal Variations in Income Inequality”. *Economic Journal* 108 (446): 26-43.

Lindert, Peter, and Jeffrey Williamson (2001). “Does Globalization Make the World More Unequal?”. Paper presented at the NBER Conference on ‘Globalization in Historical Perspective’, Santa Barbara, California, May 3-6.

McCulloch, Neil, Bob Baulch and Milasoa Cherel-Robson (2000). “Globalization, Poverty and Inequality in Zambia”. Paper presented at the Conference on ‘Poverty and Inequality in Developing Countries: A Policy Dialogue on the Effects of Globalization’, OECD Development Centre, Paris, 30 November-1 December.

Milanovic, Branko (1998). *Income, Inequality, and Poverty during the Transition from Planned to Market Economy*. World Bank, Washington, DC.

Morley, Samuel (2000). “Distribution and Growth in Latin America in an Era of Structural Reform”. Paper presented at the Conference on ‘Poverty and Inequality in Developing Countries: A Policy Dialogue on the Effects of Globalization’, OECD Development Centre, Paris, 30 November-1 December.

Pal, Parthapratim, Ranja Sengupta and Jayati Ghosh (2004). “Inequality in China and South Asia: A Survey of Recent Trends”. Paper prepared for the ‘International Forum for Social Development, Equity, Inequalities and Interdependence’, United Nations, New York, 5-6 October.

Prasad, Eshwar, and others (2003). “Effects of Financial Globalization on Developing Countries: Some Empirical Evidence”. Occasional Paper No. 220, International Monetary Fund, Washington, DC.

Riskin, Carl (2003). “Pro-Poor Macro Policies in China”. Paper prepared for the UNDP Workshop on ‘The Macroeconomics of Poverty Reduction’, Kathmandu, 4-6 January.

Savvides, Andreas (1998). “Trade Policy and Income Inequality: New Evidence”. *Economic Letters* 61 (3): 365-372.

Smeeding, Timothy (2002). “Globalization, Inequality and the Rich Countries of the G-20: Evidence from the Luxemburg Income Study (LIS)”. Paper prepared for the G-20 Meeting on ‘Globalization, Living Standards and Inequality: Recent Progress and Continuing Challenges’, Sydney, May 26-28.

Székely, Miguel (2003). “The 1990s in Latin America: Another Decade of Persistent Inequality but with Somewhat Lower Poverty”. *Journal of Applied Economics* 6 (2): 317-339.

Taylor, Lance (2000). “External Liberalization, Economic Performance and Distribution in Latin America and Elsewhere”. Working Paper No. 215, World Institute for Development Economics Research, United Nations University (UNU/WIDER), Helsinki.

Te Velde, Dirk Willelm, and Oliver Morissey (2002). “Foreign Direct Investments, Skills and Wage Inequality”. Processed, Overseas Development Institute, London.

Topalova, Petia (2004). “Factor Immobility and Regional Impact of Trade Liberalization: Evidence on Poverty and Inequality from India”. Processed, Department of Economics, Massachusetts Institute of Technology, Cambridge, MA.

UNCTAD (1997). *Trade and Development Report*. United Nations Conference on Trade and Development, Geneva.

Williamson, Jeffrey (1996). “Globalization and Inequality Then and Now: the Late 19th and Late 20th Centuries Compared”. NBER Working Paper Series No. 5491, National Bureau of Economic Research, Cambridge, MA.

Wood, Adrian (1994). *North-South Trade, Employment and Inequality*. Clarendon Press, Oxford.

Wood, Adrian (1995). “Does Trade Reduce Wage Inequality in Developing Countries?” Paper presented at the conference ‘The Third World after the Cold War: Ideology, Economic Development and Politics’, Queen Elizabeth House, Oxford, July 5-8.