GLOBALIZATION AND RISING ECONOMIC INEQUALITIES: EVIDENCE FROM BRICS

K. MAHENDRA BABU*, D. SATYANARAYANA MURTHY** AND K. RAMESH***

ABSTRACT

The paper takes the emerging economies block BRICS comprising Brazil, Russia, India, China and South Africa as a case study. An attempt is made to observe and understand the trends of inequalities within these countries in the past three decades- the period which globalization has been vibrant and spread across the world. Inequality trends are observed by taking the Gini index values. Trade openness is taken as the variable representing the degree of globalization. From the performance of the trends of these two variables, it is observed that globalization is in tandem with the rising economic inequalities within the countries of BRICS block. Although one cannot conclude with a clinical precision that globalization is the cause of this phenomenon, it is very much clear that it reduced the policy space for governments to address the issues like this with full strength, as their policies are very much influenced by global forces.

1.Introduction

"The causes which destroyed the ancient republics were numerous; but in Rome, one principal cause was the vast inequality of fortunes"- Noth Webster, American editor and writer (1758-1843)

Inequality of fortunes and the endemic nature of poverty have been the major cause of many a revolution in the history. The recent Arab upspring and the silent revolutions in its wake in select pockets of the world, including its developed segments are the result of cumulative forces of gross neglect of the majority of poor by the rulers for long. A variety of social, economic and political causes have caused these huge economic disparities in these countries.

Movements like Occupy Wall Street Campaign in the affluent western nations symbolized the dissent of the ordinary citizens and the afflicted middle class against the rising inequalities in their countries. It is very much evident that world is becoming more and more unequal and global inequalities are on rise, despite the high growth rate registered

*Assistant professor, Dept of Business Management, HNB Garhwal Central University, Srinagar Garhwal, Uttarakhand-246174.
**Ph.D Scholar Dept of Economics. Pondicherry University, Kalapet, Puducherry-605014.
***Ph.D Research Scholar, Dept of Politics and International Studies, Pondicherry University, Puducherry- 605014.

until recently. "High and rising inequality is especially problematic when growth is slow and the living standards of the typical family are declining." Says Dadush& Dervis(2013). This certainly holds good in the current situation where the world is yet to recover from the consequences of global financial crisis of 2007. The issue of economic inequalities has become a matter of policy debate, across the world today.

This debate on inequality is not new. For the past thirty years, this trend is on rise and it is in tandem with the structural and institutional changes that are taking place across the globe. The changing role of the state in a modern economy, the globalization process and the technological advancements in developing and the industrialized world had accelerated this trend.

In this context, this paper draws attention to the fact that globalization, with all its positive side, has been in tandem with the rising trend of economic inequalities. This paper takes the emerging economies block, BRICS comprising Brazil, Russia, India, China and South Africa as a case study .BRICS block is home to nearly a population of three billion and the combined GDP of these countries is U.S.$14.8 trillion. They hold forex reserves of around U.S.$ 4 trillion. This economic strength made BRICS a significant player in the world economy. Thus, it is pertinent to observe how globalization and rising inequalities in these countries are in tandem affecting nearly half of world's population.

An attempts is made to observe and understand the trends of inequalities within these countries in the past three decades, the period which globalization has been vibrant and spread across the world .For South Africa and Russia, the trends are observed from early 90s due to lack of data. Inequality trends are observed by taking the Gini index values[1] and trade openness is taken as the variable representing the degree of globalization. Performance of the trends of these two variables is critically observed and some logical conclusions are drawn .Finally the paper provides policy suggestions on mitigating the inequalities in these countries.

One section of developmental economists argue that some degree of inequality is a natural part of a market economy .Harvard economist Simon Kuznets argued, "rising inequality accompanies the initial stages of development, when workers attracted by higher wages in cities move from the countryside." However, this view could not stand as there are many countries doing well even with more equitable societies (For example Scandinavian countries), where income is quite equally distributed.

Recent empirical work at the International Monetary Fund (IMF) also show that, growth appears to be more sustained when in-equality is moderate than when it is extreme. Very high inequality could turn costlier with the deepening social divisions. This can have a serious impact on the efficacy of the government and the economic system. Hence

[1] Gini index measures the extent to which the distribution of income or consumption expenditure among individuals or households within an economy deviates from a perfectly equal distribution. Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality.

one needs to recognize the need to mitigate the inequalities. Any country that designs policies, delinking itself from the global developments would be futile. Hence an attempt is made here to understand how globalization also became one of the factors in deepening inequalities and some policy suggestions are laid down in the following sections.

2. Globalization and Economic Inequalities

Last three decades witnessed the wave of globalization, wiping away the borders across the globe. This process integrated even remote areas with the rest of the world. Capital, Labor, technology moved freely and of course capital moved much faster relative to rest of the factors. The net result is a more vibrant, technologically advanced, more integrated global economy. However, globalization not only played an important role in turning around the millions of lives across the world but also accelerated the economic inequalities.

Economic globalization freed millions from the clutches of poverty. Inequalities among world citizens declined but they still remain at very high levels. Second, Urbanisation process in the developing countries led to development of factories, raising the productivity of labor. This led to the increase in their wages relative to the wages of their counter parts in rural areas, there by leading to a huge rural- urban divide. Thirdly, the world's supply of unskilled workers has surged, lowering their wages relative to skilled workers and relative to the returns to mobile capital (Dadush& Dervis 2013).

Financial globalization helped the integration of capital markets .This reduced the dominance of labor unions and empowered the capital and capitalists. This trend of the capital dominance as the percentage of GDP contributes to inequality because high-income individuals derive a much larger share of their income from capital than lower-income citizens and thus making the societies more unequal.

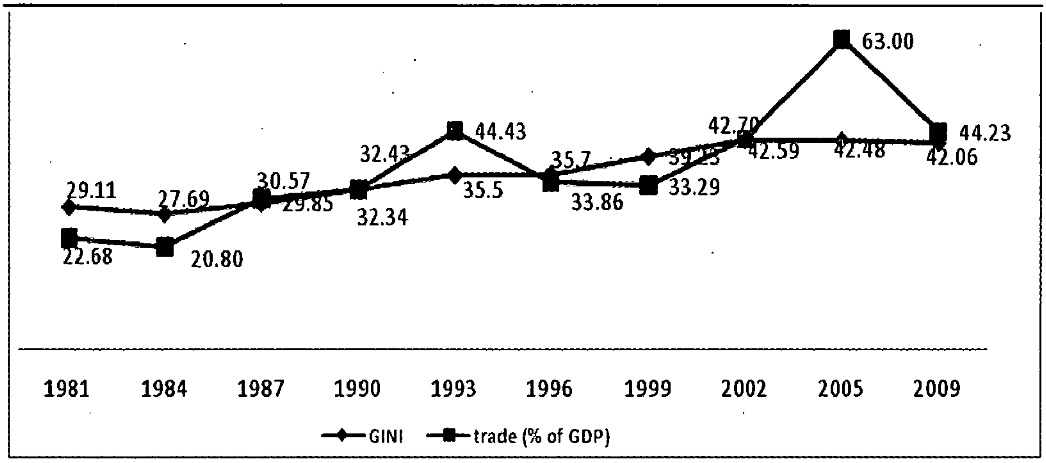
On the other side, Multi National Corporations, particularly global financial institutions gave away hefty compensations to their Executives, which one could not imagine a few decades ago. The result is that microscopic minority ended up making huge fortunes while millions starved and mired in acute poverty, leading to widening inequalities. This had far-reaching effects.

As mentioned earlier, labor is less mobile than the capital. Moreover, work started moving from one corner of the globe to other, instead of workers moving. This had distorted the labor markets in the countries having less comparative advantage in labor than the others. The net result of the globalization process is more inequality -between the urban and rural areas, between skilled and unskilled workers, between the rich and the rest, and between the developed and rest of the world. Not only among the countries, inequalities are rising within the countries, thereby inflicting enormous social and economic costs on the respective countries. The next section discusses how globalization and rising inequalities are in tandem in BRICS block.

2.1. China

China witnessed a rapid growth and rising inequalities in the last decade. A study by International Labor Organization (ILO) reveals that, China's Gini coefficient[2] for household disposable income rose from less than 0.25 to over 0.40 between 1985 and 2007. Even it is clear from the figure below that , as China's trade as a percentage of GDP increased i.e, while it is getting integrated more robustly with the world economy, there is also a rising trend in the inequalities in China, with the Gini index rising from 29.11 in 1981 to 42.48 in2009 **(Figure 1)**

Figure 1: Globalization and Economic Inequality Trends in China



Source: World Bank Reports on World Development and Poverty and Inequality

This trend is mainly due to the widening rural-urban gap in China. This disturbing trend was met with a strong response from the Chinese authorities .They declared a 17 percent increase in the minimum wage for urban workers over the past year, and targeted a 10 percent annual increase through 2015, and near-completion of a national pension scheme including all rural provinces. China, relative to other countries has more capacity-economically and politically and in the coming decade one can be positive about the efforts Chinese are putting to mitigate the inequalities

2.2. India

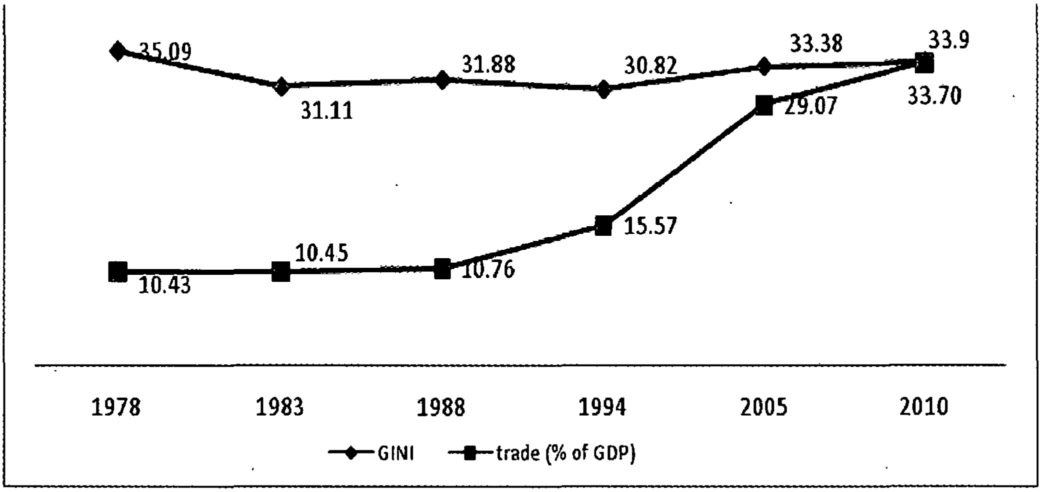
India is another Asian gaint with billion plus population and a robust economy. India was growing at a double digit growth rate till global financial crisis enveloped it. It integrated with the global economy with the economic reforms of early 90s.This was not

[2] The best-known way of measuring inequality is the Gini coefficient, named after an Italian statistician called Corrado Gini. It aggregates the gaps between people's incomes into a single measure. If everyone in a group has the same income, the Gini coefficient is 0; if all income goes to one person, it is 1.

by deliberate choice but by a compulsive economic environment at that time. India's performance on the growth front improved and from Hindu growth rate in pre reform period, it reached a double digit growth rate by mid 2000s. It also engaged itself with the global economy more vibrantly and its service sector exports played a key role in it.

India's trade as a percentage of GDP is on increasing trend since 1978.It gained momentum in the post reform period and continuing its pace with a slight decline in the period of global crisis. However it is growing reasonably at good level. On the other side inequalities are also on the rising trend. **(Figure 2)** Interesting point to be noted here is that inequalities in India are actually rising in the post reform period. Gini Index rose from 30.82 in 1994 to 33.9 in 2010. It is near to the inequality index values of 1978.

Figure 2: Globalization and Economic Inequality Trends in India



Source: World Bank Reports on World Development and Poverty and Inequality

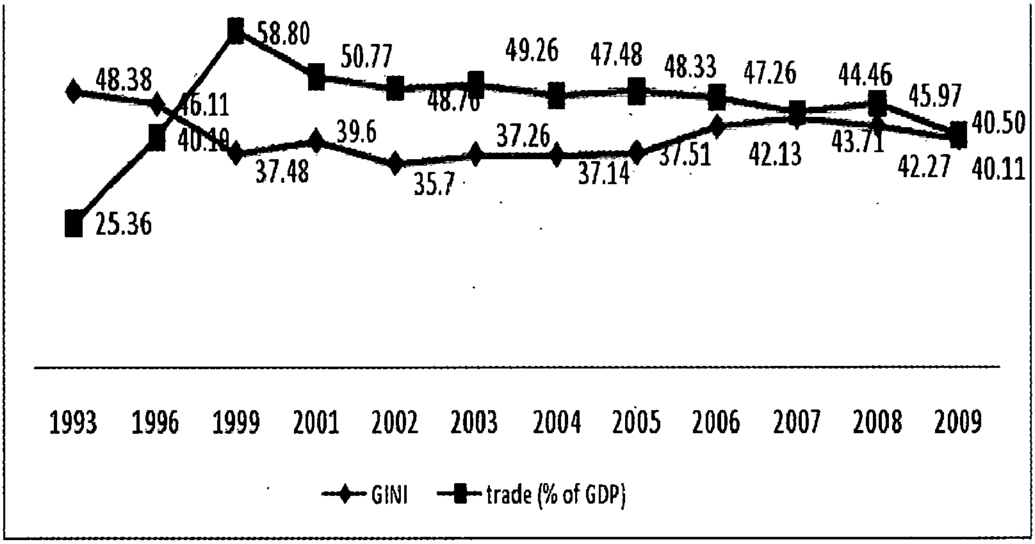
This phenomenon is a classic example to show that, economic globalization despite bringing high growth, actually raises the economic inequalities. This trend of the rising inequalities in the post reform India is due to the distributional pitfalls with the vast majority of population yet to realize the gains of growth. Indeed the pattern of growth in India is uneven and concentrated in only particular regions. The South and the western regions are performing better than the north and eastern regions on the growth front. Moreover there are high disparities within and among states falling in these regions. These trends are fuelling the separatist movements, demanding separate states with in India and even some regions demanding autonomy and independence from India itself. Gross neglect of the north eastern states and some backward regions is the main cause of this disturbing phenomena.

Corruption, lack of governance, lax in the delivery of public services, under developed physical and social infrastructure are the main drivers of inequalities in India. However, unlike China, India's response has been weak and Government investment in social protection schemes is less than 5 percent of GDP. Moreover, India's fiscal capacity is limited and the current government is less pro active in pushing the crucial second round of reforms in a full measure, due to the constraints of coalition politics faced by United Progressive Alliance. In addition to this, another major challenge is the large informal sector, where standard worker protection is nonexistent. The trend in inequality will depend on the government's efficacy to provide expanded and targeted public services, as well as on increased employment opportunities in the formal sector. However, given the political and economic constraints of India it appears to be a distant dream now.

2.3. Russia

Russia is another emerging economy that witnessed a sharp rise in inequality in the last two decades. Russia's trade a percentage of GDP increased from 25.36 % in 1993 to 40.50 by 2009. However, the inequality index fell from 48.38 in 1993 to 40.11 in 2009. **(Figure 3)** This moderation is due to high economic growth posted by Russia for the last one decade. However even this is not a very good projection as the Gini index represents that inequalities are still high and persistent in Russia.

Figure 3: Globalization and Economic Inequality Trends in Russia



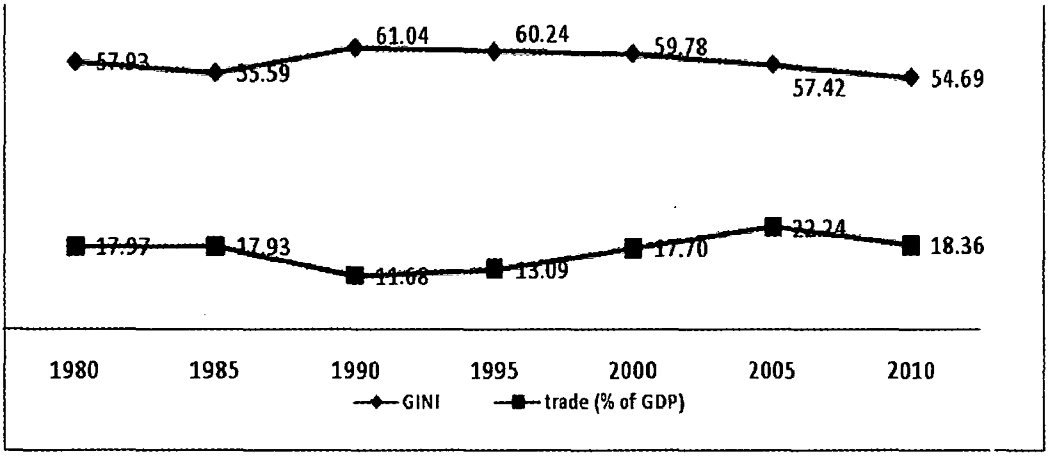
Source: World Bank Reports on World Development and Poverty and Inequality

Moreover, a study by Dadush& Dervis (2013) revealed that after the collapse of the Soviet Union, Russia's Gini coefficient for household disposable income rose by over 50 percent due to wage decompression, reflecting productivity differences across sectors. Governance issues, internal conflicts and corruption are main reasons for the bleak picture of Russian inequalities.

2.4. Brazil

Brazil is one of the world's most unequal countries. Interestingly it is the country where the inequality has fallen over the past decade. According to Lustig, the country's Gini declined from 0.59 to 0.54 between 1998 and 2009. Even in the following figure, Gini index shows a decline from 57.93 in 1981-82 to 54.69 in 2010- 2011. **(Figure 4).** Brazil's share as a percentage of GDP has not improved significantly. It just rose from 17.97 in 1981-82 to o 18.36 in 2010-11. Compared to other countries in BRICS total trade of Brazil as a percentage of GDP stands the lowest in the block.

Figure 4: Globalization and Economic Inequality Trends in Brazil



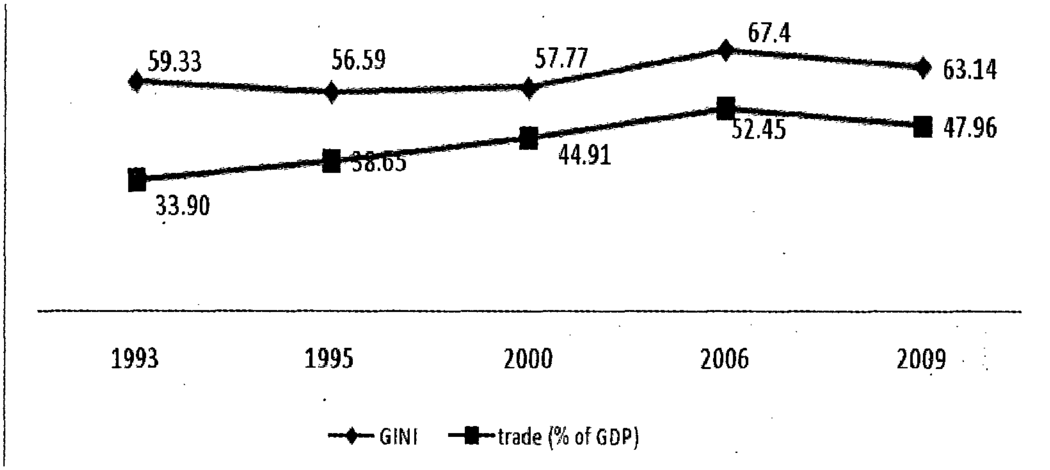
Source: World Bank Reports on World Development and Poverty and Inequality

The decline of inequality in Brazil is due to the high growth recorded in last decade due to the increasing number of working population and also the result of the government's recent efforts to increase access to education and provide greater direct cash transfers to the poorest. Together these policies account for significant decrease in inequalities from 1995 onwards. However, even with the falling inequalities, Brazil's inequality still remains at high levels. Corruption is one major cause for this .According to a survey, 'corruption costs Brazil almost $41 billion a year alone, with 69.9% of the country's firms identifying the issue as a major constraint in successfully penetrating the global market' .Tackling this issue with serious attention could improve the performance of current efforts by the government to reduce the inequalities.

2.5. South Africa

South Africa's total trade as a percentage of GDP has been consistently rising from 33.90in1993 to 47.96 in 2009, indicating its consistent engagement with the global economy. However, this is not news to celebrate as the inequalities too consistently rose up till 2006 and there is only a slight decline from 2006 onwards. Thus, inequality in post-apartheid South Africa has increased. Between 1993 and 2006, the Gini index rose from 59.33 to 67.4. This figure is very high by any count. **(Figure 5)**

Figure 5: Globalization and Economic Inequality Trends in South Africa



Source: World Bank Reports on World Development and Poverty and Inequality

There is a racial side to these inequalities. Regions with the blacks are more unequal than the regions dominated by whites. Still there need to be more investment in building physical and social infrastructure in these backward regions to bridge the gap between the regions doing well.

3.Conclusion

One can infer from the above discussion that globalization is in tandem with the rising economic inequalities within the countries of BRICS block. Although one cannot conclude with a clinical precision that globalization is the cause of this phenomena, it is very much clear that it reduced the policy space for governments to address the issues like this with full strength, as their policies are very much influenced by global forces. There is no doubt that globalization had its positive fall out on these countries (BRICS), resulting in more growth and employment and reduction in poverty levels. But the fruits of growth were not distributed evenly or at least in a fair way. The result is widening and deepening inequalities within these countries.

However, sincere efforts by the policy makers to reduce the corruption levels, increasing the investment in social and physical infrastructure, tighter financial regulation and supervision, timely social safety nets and addressing the issue of food security could mitigate the inequalities. With the very same globalization, that has been blamed for the reduction in policy space for national governments, it is possible to have an increased coordination across countries to ensure nations retain the capacity to tax giant corporations, to monitor mobile capital, and make the best use of it.

In this context, it is worth remembering the quote of Kofi Annan, saying that **"It has been said that arguing against globalization is like arguing against the laws of gravity."** We cannot ignore the laws of gravity and similarly we cannot ignore globalization. All that one can hope for are better policies with a humanitarian touch, coordinated globally, aiming at lifting the desperately poor citizens from acute poverty and reduce the inequalities to make the world a better place than what it is. This needs a strong political will and exactly this is what the world lacks now.

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