

*Globalization and inequality: what are the issues?*

1. *Has inequality among nations increased or decreased?* The answer is surely both. Continuing economic progress in advanced nations, continued stagnation or even decline in the “fourth world”, mean that the gap between the richest and poorest nations has never been wider. However, over the past 25 years the circle of advanced economies has widened - arguably for the first time since World War I. Asian nations such as South Korea that were near-subsistence economies as recently as 1960 are now cutting-edge in important ways.

2. *Has inequality within nations increased?* Definitely yes. In the U.S. income disparities have reached levels not seen since the 1920s. Inequality also appears to have increased in developing nations, though statistics are much less accurate.

3. *Is globalization responsible for increased inequality in advanced nations?* In theory there is a natural link: imports of labor-intensive products reduce demand for less-skilled labor, shifting the income distribution. By the numbers, however, this seems insufficient to explain the size of the changes, and also their “fractal” character. Technology and social change, including political factors, are probably more important.

4. *Is globalization responsible for increased inequality in developing nations?* In theory, globalization ought to work toward greater equality in developing nations: exports of labor-intensive products ought to raise demand for labor. In practice this happened in the “first wave” of newly industrializing economies, but the reverse seems to have been true since then. This is a major puzzle, and the biggest problem for advocates of globalization.

5. *What can explain the disappointments of recent globalization?* Several hypotheses might be advanced. One is the “optical illusion” theory: globalization moves people from invisible poverty in rural areas to more visible though less severe poverty in urban areas. Another is the “endogenous policy” theory: globalization forces countries to move to market-based policies more broadly, in the process undermining institutions that had mitigated inequality and poverty. These views have very different implications for policy and the future.