When Does Globalization Help the Poor?

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Abstract

What is the relationship between globalization and poverty? Developing economies have long turned to international trade and finance as a solution for development, yet 35% of the world's population still lives below the international poverty line. Economists and political scientists explore this relationship but are far from reaching a conclusion. We review this literature and argue that to understand the relationship between globalization and poverty, we must ultimately understand the political motivations underlying the policies directed at the poorest. Specifically, we contend that scholars need to identify the ideological positions of developing country governments, an identification that moves beyond the conventional left–right divide that prevails in developed nations. We provide theoretical guidance on how scholars might begin to operationalize ideology on a global basis and why this is necessary to evaluate the globalization–poverty linkage. Further, we provide some preliminary quantitative and qualitative tests of our argument. Ultimately, scholars from both disciplines must begin to evaluate government commitment to pro-poor redistribution (rather than the extent to which policy is beholden to vested elite interest groups) in order to assess the relationship between trade and poverty.

INTRODUCTION

What is the relationship between globalization and poverty? Developing countries have long turned to international trade and finance as a solution for development, yet 35% of the world's population still lives below the international poverty line. Economists have dominated both the theoretical and empirical analysis of this relationship but remain far from reaching a conclusion. A few scholars in international political economy (IPE) have entered the debate, but they tend to analyze the impacts of market exposure on the better off, not the poorest. Our aim in this review is to discuss the state of the debate amongst scholars and to identify the conditions under which globalization improves the livelihoods of the absolute poor, that is, those living at or below their national poverty line. We take this one step further and challenge scholars to better understand variation in the willingness and ability of governments to commit to pro-poor policies alongside globalization.

A great deal of the research on globalization and poverty in less developed countries (LDCs) is rooted—either implicitly or explicitly—in Heckscher-Ohlin, Stolper-Samuelson (HOS) trade theory. According to HOS, globalization should produce benefits for the poor in countries that have a comparative advantage in labor—or most LDCs. Yet, although these models have been helpful for establishing a framework for understanding the basic theoretical concepts linking globalization and poverty, empirical evidence supporting the popular notion that expanding trade universally reduces poverty in LDCs is sparse. We do, however, observe an emerging consensus in both the economics and political science literatures that the livelihoods of the poor are more likely to improve when LDCs liberalize in tandem with government efforts to distribute the gains from liberalization more broadly.

Much of the scholarly debate on globalization and poverty now revolves around identifying the government interventions and macroeconomic policies that are the most critical mediators between globalization and poverty. Research in this vein clusters in two groups, and we review them in turn: (*a*) analysis of the political and economic conditions existing in a country at the time of liberalization and (*b*) examination of government initiatives that either redistribute the gains from globalization toward the poor or (formally) integrate the poor into the international economy. Of course, initial conditions and government policies are often interlinked; it was Adam Smith who first opined that the benefits of free trade were hampered or aided by countries' initial conditions, and that government policies were then ultimately responsible for transforming these initial disadvantages or advantages to link market participants and to advance marginalized groups.

Although the literature that we review demonstrates the role of pre-existing conditions and government initiatives in bridging the link between globalization and poverty reduction, it underestimates the importance of identifying the political circumstances under which governments are willing to take action. Some work has been done in this regard, such as exploring the role of interest groups, partisanship, and regime type for driving poverty-reduction policy initiatives. However, there is still an important missing element in the scholarship on globalization and poverty. We argue that scholars should move beyond focusing on the conventional left–right partisan divide that prevails in rich nations and turn their attention instead to the ideological positions of the most powerful interest group in poor nations: economic elites. We provide theoretical guidance on why this turn could add insights into the globalization–poverty link and how scholars might begin to operationalize elite ideology on a cross-country basis. Ultimately, more rigorous and comprehensive analyses of the factors driving the willingness of governments to implement pro-poor policy interventions are important to better identify the conditions that lead to poverty reduction under increasing levels of globalization.

We do not claim—nor does the literature show—that increasing economic globalization has completely bypassed the poor in developing countries. Indeed, human development (education, health, and income) has been steadily increasing, albeit slowly. Rather, we focus on the extensive scholarship that asks why predictions about rapid poverty reduction have failed in many developing countries. We evaluate this body of work and suggest that the key to resolving this puzzle lies in analyzing the conditions under which governments are more likely to institute policies that will help the poor benefit from international market exposure.

Our analysis is organized as follows. First, we clarify our definitions of these two important and often controversial terms, globalization and poverty. Second, we review the literature on globalization and poverty using HOS as a framework for establishing the causal links or lack thereof. The penultimate sections suggest an avenue for future research, which focuses on identifying governments with a greater willingness to institute pro-poor policies alongside globalization. In the conclusion, we summarize the findings from the globalization–poverty literature as well as its strengths and shortcomings.

DEFINING GLOBALIZATION AND POVERTY

Globalization commonly refers to the increasing interdependence of countries caused by increasing flows of goods, capital, people, and information. Although the noneconomic aspects of globalization—such as migration and information flows—also impact the livelihoods of the poor around the world, we focus our discussion on the rise of international trade and foreign direct investment (FDI) flows that are central to the globalization–poverty debate. We review the literatures in economics and political science that govern most academic debates on globalization and poverty. The bulk of this research, however, focuses on the relationship between international *trade* and poverty in developing nations. This is not surprising because most LDCs have prioritized openness to trade for decades now, whereas liberalization of capital flows is a more recent phenomenon. Further, FDI and remittances make up a substantially smaller share of national income in low- and middle-income countries than do trade flows.[1] Scholarship focused on analyzing the impacts of portfolio flows on poverty is comparatively sparse.

Defining poverty and "the poor" is complicated. Development scholars such as Sen (2000) have long argued that standard economic measures, such as wages and gross domestic product (GDP) growth, can improve without having any meaningful impact on the quality of life of the poor. As such, globalization research that focuses on inequality and growth may not give us a meaningful picture of improvements (or a lack thereof) in the livelihoods of the poor. This is because the absolute poor in LDCs are generally "unskilled" individuals having no or minimal education (i.e., less than five years)[2] and living at or below the national poverty line. If improvements in access to primary education or quality of basic health care fail to accompany growth, vulnerable populations are unlikely to experience a reduction in the daily risks they confront. We thus evaluate the literature with a focus on globalization's impacts on the earning opportunities and income security of the unskilled poor, i.e., individuals with little or no education living at or below the poverty line.

THE LITERATURE ON GLOBALIZATION AND POVERTY

At the heart of nearly every economic and political science study of economic globalization and poverty is the classical HOS theory of international trade. This model predicts that the poor in

[1] Data from the World Development Indicators shows that low- and middle-income countries had trade flows accounting for nearly 55% of GDP over the previous five years, whereas remittances accounted for about 1.5% of GDP and FDI accounted for about 4%.

[2] Wood (1995) identifies individuals with less than five years' education as unskilled labor, as opposed to low-skilled labor, who have an average of 12 years of education.

labor-rich developing countries will be better off with economic openness in the long run. Trade openness in a country with a comparative advantage in unskilled labor (most developing countries) is expected to lead to an increase in the price of the unskilled-labor-intensive good. This will, in turn, lead to higher employment and real wage benefits to unskilled labor, resulting in higher earnings for the poor and a reduction in wage inequality. Economic liberalization, theoretically, also lowers the price of imported goods, increasing the real incomes of the poor.[3] In general, HOS suggests that increased openness in countries with a relative abundance of labor will increase global demand for those labor-intensive goods, decrease the price of consumption goods, and therefore increase the real income of workers (Mundell 1957, Reuveny & Li 2003, Grossman & Rossi-Hansberg 2008). Many scholars argue that this model can also be applied to FDI because firms often invest abroad to acquire resources unavailable in the home country, such as low-cost labor (Yeaple 2003, TeVelde & Morrissey 2004, Bellak et al. 2008).

Whereas the first generation of literature on the distributional impacts of trade argued that liberalization unconditionally lowered poverty, recent and more influential literature shows that this outcome is in dispute (Rodrik 1997, Collier 2002, Stiglitz 2002). The relationship between foreign capital flows (FDI, portfolio, debt, and other capital) and poverty is even harder to establish. For example, some work finds that the impacts of these flows on poverty have both positive and negative effects: They may improve growth, but they may also introduce volatility, instability in production, employment risk, and wage inequality (Carkovic & Levine 2002, Prasad et al. 2007, Mihalache-O'Keef & Li 2011). Most scholars now contend that a country's initial conditions (e.g., geography, skill endowments, institutions) might derail the beneficial predictions of HOS under globalization. Put another way, without the right initial conditions, the poor are unlikely to experience substantial gains from globalization, even when they are part of the group (labor) that is expected to gain from trade. A second strand of literature on this topic takes this one step further; it identifies the types of government intervention necessary to ensure that marginalized groups can take advantage of the changing economic conditions under liberalization (despite initial conditions) and/or to increase social protections from the greater risks and uncertainties of globalization. We look at each of these in turn.

Initial Conditions

Scholars contend that a country's initial endowments and existing institutions at the onset of liberalization are one of the primary determinants of the extent to which its citizens gain from globalization. The poor are vulnerable when initial conditions prevent aggregate gains from liberalization. Further, even when countries experience growth with liberalization, the poor may fail to benefit if weak political and economic institutions persist. As Ravallion (2001, p. 1,812) puts it in his discussion of the link between economic development and the poor, "only if the conditions are in place for them [the poor] to take advantage of those opportunities will absolute poverty fall rapidly. . . . [Otherwise] economic reforms can readily bypass the poor."

Globalization will more readily "bypass the poor" if there are existing geographical disadvantages, an overabundance of unskilled labor in agriculture and manufacturing, and weak

[3] We believe that lowering prices of consumer goods is an important channel through which openness affects income; however, consumer prices are likely to fall more for industrial goods (because initial tariffs are higher for industrial goods), and this is generally to the advantage of rich and urban households (Cockburn et al. 2008). Further, the literature on the relationship between consumer prices and poverty has failed to reach a consensus. Deaton (1989), Benjamin & Deaton (1993), and Hertel et al. (2003) show that raising the price of a trading commodity increases the income of the producing household (seller) and/or low-skilled wage earner. Porto (2006) explores the channel of lower consumption prices and finds that it has a pro-rich bias because the prices of unskilled-labor-intensive goods (foods and beverages, for example) can increase with tariff reductions, and poorer households spend a larger percentage of their budget on basic goods.

institutions. Taken together, this literature suggests that the poor in countries that bear such initial conditions will not experience the hypothesized HOS gains from trade. At best, they maintain the poverty status quo. At worst, vulnerable populations are confronted with additional risks, given that they lack the safety nets necessary to protect them from economic volatility—which may be particularly severe under globalization. The loss of income, jobs, and social stability that tends to accompany economic volatility places those at or near the poverty line at high risk for starvation, disease, and even death.

Geography. Poor geography can mitigate aggregate gains from trade and foreign investment, generating welfare losses that may be concentrated among the poor (Redding & Venables 2004, Bloom et al. 1998). According to this literature, the condition of being landlocked or remote is a common geography-related factor that prevents the poor from experiencing the benefits of liberalization. These nations trade less than their counterparts because of exceedingly high transportation costs, regardless of the depth of liberalization policies in place (Srinivasan 1986, Frankel & Romer 1999).

Perhaps more importantly for the poor, however, landlocked and remote countries tend to concentrate production in a few, easily transportable, low-cost goods, rather than specializing in trade according to HOS. These nations are subject to high volatility in export earnings, particularly because landlocked nations are also sensitive to rising fuel costs (Jansen 2004, Haddad et al. 2013), increased volatility in the terms of trade (Winters 2002, Winters et al. 2004), and lower levels of FDI (Blattman et al. 2007). As Wibbels (2006) points out, such shocks also lead to lower levels of redistribution. The poor are thus especially vulnerable in geographically disadvantaged countries because they lack the resources—such as the ability to save and diversify their income—to ride out trade-induced economic downturns common in this type of economy (Lustig 2000, Laursen & Mahajan 2005, Prasad et al. 2007).

A similar dynamic is at play in globalizing countries with large natural resource endowments. One of the key elements of the "resource curse" is that resource-rich countries tend to rely on primary commodity exports and similarly fail to diversify their economies, leading, again, to volatility and less redistribution. Export volatility can be even more acute in resource-rich countries (Sachs & Warner 1995, 1999; Deaton 1999; Ross 1999). In addition, resource-rich countries often see a contraction in the non-resource sector as a result of an appreciation of the exchange rate, especially in manufacturing. This has two effects on the poor: a loss of potential job opportunities in manufacturing (Hirschman 1958, Matsuyama 1992) and a concentration of unskilled labor (the poor) in the nontradeable sector, which does not benefit from liberalization (Sachs & Warner 1999). The appreciation of the exchange rate has implications for the poor beyond the contraction of manufacturing. As inflation increases, prices for food staples increase, having a direct effect on the poorest, who often spend the majority of their income on staple foods (Delgado et al. 1998, Hoekman & Olarreaga 2007).

Agricultural and unskilled labor. HOS predicts that liberalization in countries that have a comparative advantage in land should decrease poverty through increased incomes in the agriculture sector, where the bulk of the uneducated poor are located. Agriculture employs almost three-quarters of the population in developing countries and accounts for about half of GDP (FAO 2001). However, studies find that the process of agricultural liberalization—at least in the short run—can displace large segments of the rural poor, such as smallholders, who struggle to compete in the export goods market as demands for productivity, technology, and quality rise (Bardhan 2006, Reardon et al. 2009). Agricultural liberalization does not necessarily exacerbate poverty as long as (*a*) there are safety nets or adjustment packages in place to assist with restructuring or (*b*) manufacturing and agricultural jobs open up in the formal economy (Lewis 1954). However, most of these nations have limited resources to help the poor with this transition, and if the new manufacturing jobs pay no better than subsistence wages, this shift will have little effect on poverty (Winters 2002, Winters et al. 2004).

Here again, if the poor are able to take advantage of the new export opportunities, they may still be pushed back into poverty by the higher volatility associated with agricultural trade. Openness in the agricultural sector exposes the rural poor to higher and more volatile world food prices affecting smallholders (and the urban poor), who are likely to be net food buyers (Cashin et al. 2002, Koren & Tenreyro 2007). As we saw with natural resources and the condition of being landlocked, volatility increases risks even for those benefiting from new agricultural export markets.

In the industrial sector, the poor tend to be concentrated in unskilled labor markets. Most of the literature on globalization focuses on the gains in liberalizing developing countries for the low-skilled, inadvertently ignoring the unskilled. HOS predicts that openness in countries with high endowments of unskilled labor leads to a greater global demand for these laborers and increased incomes. This does not, however account for the trade- and FDI-induced skill-biased technological change that has accompanied globalization, which has increased demand for low-skilled labor but not for unskilled labor. Although absolute poverty may still decrease, income inequality is likely to increase. Studies in this vein draw from Grossman & Helpman (1993) and link trade and FDI with firms' skill-biased innovations, finding greater demands for skilled (and not unskilled) labor (Acemoglu 2003, Thoenig & Verdier 2003). Empirical work confirms that trade and FDI increase the demand for relatively skilled labor at the expense of unskilled labor (Feenstra & Hanson 1997, Milanovic 2002, Kratou & Goaied 2016). Indeed, both Kosack & Tobin (2015) and Gourdon et al. (2008) underscore that the poor benefit minimally from globalization in countries with low levels of human capital.

Poor institutions. Scholars also contend that liberalization of the trade and investment sectors will lead to economic growth and poverty alleviation only if certain institutional prerequisites—specifically private property and rule of law—are in place.[4] Property rights, contract enforcement, and corruption impact the type and stability of trade, capital, and investment that flow into countries (Collier & Gunning 1999, Collier 2002). For example, Klein & Olivei (2008) find that the economic and regulatory institutions associated with financial deepening are necessary for developing countries to benefit from liberalization. At the same time, some scholars have argued that trade liberalization actually improves institutions (Dollar & Kraay 2003), but more recent research shows that this is not necessarily the case (Rodrik 2008, Do & Levchenko 2009). Beyond the country-level welfare losses from lower trade, the poor are less able to benefit without access to credit; lack of credit prevents them from increasing investments in their land, skills, crops, or businesses and taking advantage of changing economic opportunities from globalization (McCulloch et al. 2001, Collier 2002).

Because labor mobility is a key assumption supporting HOS predictions, rigidity of labor laws during liberalization is another example of an institution that may derail gains for the poor. Many developing countries have inflexible labor market policies that have been slow to change following globalization (Perry & Ollarreaga 2007). If rural and urban labor cannot easily reallocate within and across sectors in response to the price changes induced by liberalization, exporting sectors

[4]Several authors argue that the strength of current institutions is an artifact of historical legacies such as legal origin (La Porta et al. 1998) and colonization (Acemoglu et al. 2001). For the purpose of examining the relationship between globalization and poverty, the origin of the institutions is less important than how the institutions interact with globalization policies to determine poverty outcomes.

develop less efficiently and the poor lose access to new and improved income opportunities (see Goldberg & Pavcnik 2004).

Pro-Poor Government Interventions

The implication of many of the studies referenced above is that government initiatives post-liberalization can help the poor take advantage of (or lose less from) globalization, even in countries with poor initial conditions. What are these intervention policies? When are governments willing to put them in place? We now turn to research that explores these questions. Our intent is to outline some of the macro- and micro-level studies that demonstrate how pro-poor policy interventions are critical to improving the globalization–poverty relationship.

Macroeconomic studies tend to use the implementation of key policy reforms—such as investing in human capital, improving financial depth and regulation, and exercising good governance—to assess the extent to which economic globalization improves development. For example, Dollar & Kraay (2003) find that monetary policy stability, financial development, and political stability are requisite policies for economic growth. Bolaky & Freund (2004) contend that excessive regulation decreases economic growth as countries liberalize. Chang et al. (2009) argue that high levels of educational investment, financial depth, inflation stabilization, public infrastructure, governance, and ease of firm entry and exit are critical to ensuring that openness increases economic growth. Borensztein et al. (1998) and Alfaro et al. (2006) find similar results for FDI: The impact on economic growth is positive when a country has high human capital and financial depth. However, although macroeconomic studies are helpful for elucidating how the presence or absence of various types of national policies condition the relationship between globalization and development, they tell us little about specific policies to compensate the poor.

There are fewer micro-level studies on globalization and poverty, but they are useful for understanding how specific policies such as access to credit, labor market reforms, social welfare spending, and other complementary policies condition the impact of globalization on poverty per se. For example, Goldberg & Pavcnik (2007) and Topalova (2010) examine household data in Colombia and India, respectively. Their findings support the contention that the association between trade openness and decreasing poverty may be conditional on labor market deregulations that make it easier for workers to relocate across sectors. Case studies of Latin America (Porto 2007) and Zambia (Balat & Porto 2007) suggest that easing government price restrictions on key staples would insure that the poor gain from decreasing food prices, and that agricultural programs that develop infrastructure, increase credit availability, and give technical assistance to farmers would enable them to switch to more profitable crops for export. Similarly, in a case study of Cambodia, Soloaga (2007) finds that technical assistance to poor farmers to improve their rice yields would enable them to participate to a greater extent in the export market. Finally, Kakwani et al. (2010) and Lindert et al. (2006) use household-level data from Latin American countries to show that those countries with stronger social safety systems (such as the social security and cash transfer systems in Brazil) provide a cushion for the poorest against the volatility and macroeconomic shocks brought about by globalization.

This body of research, based primarily in economics, posits a range of government policies that might mediate the beneficial impacts of trade and/or FDI on the poor. However, scholars stop short of considering the willingness of governments to adopt such policies and/or redistribute to the poor under liberalization. In other words, although the implications of adopting good institutions are clearly stated, the critical question of whether LDC governments have the political will to do so in the globalizing environment is overlooked.

Studies in IPE have taken up this question. IPE scholars have found that many LDC governments are constrained from implementing redistribution policies in the globalizing environment. This is because, they argue, globalization encourages a "race to the bottom" in welfare spending; increasing such expenditures in this context results in higher taxes and labor costs, which inevitably depress exports and encourage foreign investors to seek other locations. It is notable that although globalization has been strongly associated with higher government spending in rich countries (Cameron 1978, Ruggie 1982, Katzenstein 1995, Garrett 1998), IPE scholars find the opposite is true in developing economies (Rudra 2008, Greenhill et al. 2009, Nooruddin & Simmons 2009).

The upshot, however, is that this literature helps to identify the political conditions under which governments might pursue redistribution during liberalization despite race-to-the-bottom pressures. Specifically, these studies emphasize that governments of countries that host less powerful business interests, well-organized labor groups (Garrett 1998, Rudra 2002, Korpi & Palme 2003), powerful leftist parties (Kaufman & Segura-Ubiergo 2001, Allan & Scruggs 2004, Huber & Stephens 2012), and/or democratic institutions (Avelino et al. 2005, Rudra & Haggard 2005) will increase spending on programs that protect citizens from the risks and uncertainties that accompany globalization. Although scholars disagree as to which political institutions are the most critical for promoting redistribution in this context, the underlying idea is that governments respond to powerful pro-poor interests that demand compensation for the risks of globalization.

Yet interest groups, partisanship, and regime type only get us partway toward understanding when LDC governments are most likely to implement the types of policies that help the poor benefit from globalization. Much of this literature adopts political models of redistribution from OECD countries (Cameron 1978, Garrett 1998) and assumes that (*a*) redistribution comes from bottom-up pressures and (*b*) social spending is inherently redistributive (for notable exceptions, see Wibbels & Ahlquist 2006, Brooks & Kurtz 2007). The second assumption is especially problematic in developing countries, where welfare programs tend to protect the better off and not the poorest (Rudra 2008).

Perhaps more importantly, however, the political variables that are hypothesized to mediate this relationship do not necessarily represent the poor in many LDCs. An increasing number of theoretical and empirical studies in political economy show that democracies in developing countries are not responsive to the poor. Put simply, the poor are too large in number, are too geographically dispersed, and lack the elite political connections and funds to influence policy making. Many LDC democracies supply white elephants rather than public goods that target the poorest. Evidence on this front comes from econometric work (Manzetti & Wilson 2007, Albertus & Menaldo 2014), formal models (Robinson & Torvik 2005), and case studies (Keefer & Khemani 2005). The persistence of mobilization challenges, identity politics, vote buying, informational asymmetries, strong-elite democracies, and legacies of patronage politics underscore the poor's position—or lack thereof—in democratic government decision making (Keefer & Khemani 2005, Robinson & Torvik 2005, Pande 2011, Albertus & Menaldo 2014).

Likewise, because the poor notoriously suffer from collective action problems, they are unlikely to form strong interest groups (Rudra 2008). This is also why leftist parties—where they exist in developing economies—represent the interests of formal, organized labor, often pursuing policies that are not in the interests of the poorest (McGuire 1999). As a consequence, marginalized groups tend to be politically underrepresented in LDCs. Thus, interest groups, leftist parties, and regime type alone are unlikely to create pressure on governments to implement pro-poor policies alongside globalization. This calls for a deeper analysis of the conditions under which governments are likely to support poverty reduction policies during globalization.

A NEED FOR FURTHER RESEARCH ON GLOBALIZATION AND GOVERNMENT EFFORTS TOWARD THE POOR

The bottom line thus far is that without government intervention, we have little reason to expect that the hypothesized benefits of globalization for the absolute poor—increased real income and earning opportunities—will materialize. Further, if the benefits of globalization are unequal and disproportionately benefit the rich, any ancillary improvements for the poor are likely to be minimal (Acemoglu & Robinson 2006).[5] What determines whether governments enact policies directed at assisting the poor? If we accept the assumption (standard in political economy) that governments respond primarily to organized interests (Grossman & Helpman 2001), the poor are likely to be underrepresented, perhaps most acutely in developing countries.

Scholars in political science propose that left-leaning governments are the most likely to enact pro-poor policies, as they actively pursue redistributive policies within democracies, especially compared to right-leaning governments (see Bradley et al. 2003, Allan & Scruggs 2004, Ha 2012). Yet we see political parties around the world labeled as leftist failing to support pro-poor policies alongside globalization. One reason for this, mentioned above, is that leftist parties represent the positions of organized labor, which does not include the absolute poor. We posit an additional explanation: a consistent and relatively stable left–right partisan divide does not exist across the developing world, particularly outside of Latin America.[6] As we discuss in the next section, political party platforms in most developing nations are built on a mix of traditionally left and right agenda items and ethnic or regional identities, and they may be shaped by strong personalities (Fearon 1999, Van de Walle 2003, Manning 2005, Chandra 2007). Partisanship may not be the key factor driving greater willingness to redistribute to the poor during globalization.

The Challenge of Left–Right Partisanship Across the Developing World

Left–right partisanship generally rests on two distinct cleavages: (*a*) systematic variation in socioeconomic class support, with working-class constituents—organized unions in particular—constituting the left's primary base; and/or (*b*) distinct economic and social policy positions, with pro-redistribution and anti-market/pro-state positions characterizing the left. The class support cleavage does not exist in most LDCs, where the formal labor force—and thus organized unions—constitutes a very small proportion of the overall population. In fact, average union density in LDCs (17.88%) is approximately half that of the advanced industrialized countries (Freeman 2009); added to this, labor groups in LDCs are beset with collective action problems (Rudra 2008). Latin America may be an exception in this regard.[7] The second left–right policy cleavage also fails to apply, as parties across the political spectrum in the developing world have been embracing both redistribution and open markets. Since the 1980s debt crisis, and for some developing countries even earlier, trade liberalization has become a key element in

[5]This inequality becomes embedded in institutions, which are also inequitable and inefficient (Sokoloff & Engerman 2000, Acemoglu et al. 2001, World Bank 2006). Political elites can then systematically neglect subordinate groups in unequal societies, where the behavior of elites shapes both formal and informal institutions that perpetuate such underinvestment. This is why, for example, many governments in LDCs continue to prioritize tertiary-level investments in education and health care despite hosting large populations of undernourished and uneducated poor.

[6]Luna & Kaltwasser (2014) discuss why, even in Latin America, measuring the left–right ideological divide can be challenging.

[7]In Latin America, the conventional left–right cleavage is more identifiable. This is because Latin America has a relatively larger and longer history of urban organized working-class movements (Collier & Collier 1991); fewer religious and ethnic divisions (Alesina et al. 2003); and a longer tradition of a welfare state (social insurance), which has created a clear schism between reformists and defenders (Huber & Stephens 2012). We thank Andrew Baker for his insights on this issue.

THE CHALLENGE OF MEASURING LEFT–RIGHT PARTISANSHIP: MOZAMBIQUE EXAMPLE

Mozambique's FRELIMO party is a paradigmatic example of a party that DPI classifies as leftist. The party was originally formed as a socialist guerilla organization, and in its early years it adopted many statist policies. However, since the 1990s, under pressures of low growth and structural adjustment programs, FRELIMO—which remained in power even after the implementation of competitive elections—embraced liberalization with measures such as reduction of customs duties and privatization of state-owned enterprises. The country's main trade union, Mozambique Workers' Organization, has historically been controlled and directed by FRELIMO, and it now has a more contentious relationship. Regardless, unionization rates are estimated at 2.5% of the workforce, with declining membership alongside a shrinking formal sector (see Horwitz 2007, Freeman 2009).

LDCs' development strategy; and not incidentally, an overwhelming majority of citizens (87%) in LDCs strongly support trade (PEW Res. Cent. 2014). Redistribution proposals, however, have long been the currency of political campaigns in nations where the median income earner is poor—regardless of actual fulfillment of those campaign promises.

Surprisingly, numerous studies in political science and economics assume a left–right distinction exists globally, while making little effort to define it (e.g., Dutt & Mitra 2005, Bjørnskov 2008, Grieco et al. 2009, Wehner 2009, Ha 2012, Galasso 2014). The World Bank's Database for Political Institutions (DPI) is the go-to source for cross-national ideological identification; but here also, left and right are not defined, and coding is notoriously unreliable. For instance, DPI codes both of Ghana's recent governing parties—the National Democratic Congress Party (2012–present) and New Patriotic Party (2001–2009) as "right," but both parties have ardently pursued pro-poor redistribution policies and international market openness. The main umbrella organization for union activities, the Trades Union Congress, views both parties as antilabor (Modern Ghana News Agency 2002). Incidentally, country experts also cannot agree; they have labeled both parties as left (Morrison 2004), both as right (Elischer 2012), and the New Patriotic Party as a "party without an ideology" (Agambila 2009). Other examples of left–right partisan confusion abound (see sidebar titled The Challenge of Measuring Left–Right Partisanship: Mozambique Example). Put simply, both so-called rightist and leftist parties across the developing world support both free(r) markets and redistribution, and lack a strong (and representative) labor base.

Elite Ideology

What, then, helps to determine whether governments implement pro-poor policy interventions if regime type, traditional partisanship, and interest group representation alone are unreliable predictors? We propose an additional consideration: redistribution policies associated with the prevailing elite ideology in that society. The ideology of economic elites—who form special interests and can be powerful veto players in LDCs—may be critical in determining the extent of policies directed toward improving the living conditions of the poor during liberalization.

It is plausible that elite ideology can play an instrumental role in poverty alleviation after trade and financial liberalization. Studies show that globalization increases demands for redistribution because of the greater risks and uncertainties it generates (Rodrik 1997, Wibbels 2006, Walter 2010). This is because citizens in open economies are more susceptible to greater job insecurity, wage uncertainty, and economic volatility. Liberal elites are more likely to support post-liberalization compensation policies that are universal (such as health coverage) and subsidies that are directed toward underprivileged groups who they view as unable to take advantage of the globalization process. Conservatives, in contrast, are more likely to demand social insurance and more meager means-tested policies to increase their income stability in the presence of globalization.

How do we assess the ideology of elites within a developing economy? We turn to literature in microeconomics and behavioral economics that identifies a liberal–conservative elite cleavage in a way that can be applied globally. There is solid empirical support that ideology—based on distinct views of social mobility—is one of the primary determinants of redistribution toward the poor (Fong 2001, Alesina & Glaeser 2004, Alesina & Angeletos 2005). Liberals view poverty as a function of structural conditions beyond individual control (e.g., inheritance, state of the economy, lack of jobs for the poor) and hence support pro-poor redistributive policies; they believe poverty is mostly due to bad luck and cannot be escaped through hard work alone. Conservatives perceive poverty as the result of lack of effort; they resist redistributive policies toward the poor because they believe such policies further dull the incentive for hard work.

Using World Values Survey (WVS) data, Alesina & Angeletos (2005) find that a society's core social belief (i.e., whether social mobility is a function of luck or effort) impacts the level of redistribution in that society. They argue that in the United States, for example, the historical emphasis on the role of hard work results in low levels of support for government redistribution in equilibrium. Alesina & Angeletos (2005) discuss in detail the aversion to nobility and birth-related privileges that is deeply rooted in American history. In constrast, Europeans, based on historical experience with luck, connections (generated by birth and nobility), and family history, generally favor the view that bad luck creates poverty, and thereby prefer higher levels of redistribution. Societal beliefs regarding the role of luck and effort, unfair market outcomes, high redistribution, and high taxes reinforce each other; and this equilibrium behavior persists through generations.

In developing countries, rather than considering average societal beliefs, we focus on the ideological convictions of economic elites who may comprise critical pressure groups. A large body of work shows both theoretically and empirically that elites with substantial economic resources have historically dominated both policy making and the distribution of public resources (Mills 1959, Kohli 2006, Ross 2006, Winters 2011, Domhoff 2013). This is particularly likely in developing countries, where economic elites are a small group (relative to the population) with much at stake; they also supply politicians with the bulk of necessary economic resources through taxes and bribes. These factors make it easier for economic elites to overcome collective action problems and form strong interest groups that disproportionately influence political thinking regardless of regime type or traditional left–right political leanings of parties. LDC politicians cater disproportionately to elite interests by taking advantage of weak accountability and information-providing institutions (Keefer & Khemani 2005).

Thus, if elites in a developing country believe that the poor have limited opportunities in the globalizing economy, and concomitantly believe that structural conditions need to change to facilitate their mobility (i.e., if elites are liberals), then they are more likely to support pro-poor redistribution and more universal social policies. Put differently, when elites in a developing country perceive that structural conditions in society (e.g., availability of jobs for the poor) prevent economic success post-liberalization, they are less likely to block redistribution efforts that they view as improving the probability of upward mobility for the poor.

Liberal elites will not necessarily actively lobby the government for pro-poor policies. Rather, governments are likely to face less resistance in their efforts to appease the majority of their populations (the poor) when elites believe such policies are justified, do not jeopardize their own interests, and/or are likely to have economic benefits for themselves as well, such as social stability and higher labor productivity. In contrast, conservative elites are more likely to veto any government efforts they view as wasteful, discouraging productivity, and/or redistributing wealth away from them.

How do governments know if elites are liberal or conservative? Alesina & Angeletos's (2005) analysis implies that this knowledge comes from a country's historical experience. The experience of wealth generation—based on luck and/or effort—occurs throughout the individual's family history, and not only during the person's lifetime (Alesina & Angeletos 2005). For example, throughout India's history, class differences have been rooted in a caste system, and are a result of actions in the individual's past life, i.e., karma, as opposed to individual effort. A common belief in Indian society is that the poor are poor because they committed negative deeds in their previous incarnation(s), which also explains their lower caste status. The poor's efforts for social mobility in this life are futile; their economic status was determined from birth. This acceptance of status as earned (from a past life) has translated into a belief that the poor are lazy.[8] Economic elites are thus more likely to be conservative in India. Indeed, the WVS reveals that over 56% of Indian economic elites perceive the poor as lazy.

In contrast, Brazil's history of seemingly interminable cycles of hyperinflation and widespread personal hardships has created a sense that individual ability and effort—regardless of class—are meaningless for success. The WVS shows that 76% of the Brazilian population believes the poor are poor because "society is unjust," and this view is shared among the elite. A recent World Bank survey of 320 randomly selected individuals from Brazil's elite show that almost half view poverty and inequality as the main obstacles to greater democracy (Lindert et al. 2006).

As we would expect, India has a long history of elite capture of public subsidies and inadequate programs that have had limited impact on the poor's living conditions (Keefer & Khemani 2005, Bardhan & Mookherjee 2012). This trend persists post-liberalization, despite the pro-poor stance of the previous governing party (Congress) and the reigning Bharatiya Janata Party's recent policy and spending emphasis on the poor (Business Standard 2016). Much evidence confirms that Indian elites systematically exclude the most disadvantaged groups from both public and targeted goods, even within their own villages (Dreze & Sen 1996, Banerjee & Somanathan 2001, Keefer & Khemani 2005).

In contrast, Brazil's antipoverty programs adopted after liberalization, such as Bolsa Familia—the conditional cash transfer (CCT) intervention—have been relatively impervious to manipulation and corruption by economic (and political) elites (Fried 2012, Zucco 2013). We do not underestimate the role of other factors in its success, such as program design, resources for monitoring and targeting, and political support. Our emphasis, rather, is consistent with a recent World Bank study that attributes the successful use of CCTs to the widespread belief in Brazil—even among elites—that people are poor due to the "fault of an unjust society" (Lindert et al. 2006, p. 9). Barrientos & Villa (2015) further discuss the role of elites in CCT success. CCTs in similar countries, such as Argentina and India, on the other hand, have been less effective and have been subject to elite manipulation (see Das et al. 2011, Vishwanath et al. 2011, Fenwick 2013, Calvo & Murillo 2014, Murray et al. 2014). It is noteworthy that different presidents from traditionally center–right and leftist parties have supported CCTs in Brazil.

[8]A key distinction from Europeans' view of social mobility is that although poverty is linked to birth status in both societies, historical experience in India suggests that (*a*) the poor are unlikely to improve social mobility with redistribution and (*b*) they have earned their status in life through actions in their past life.

A SIMPLE EMPIRICAL ASSESSMENT

Beyond the case snippets, we make a first attempt to offer some evidence that the liberal–conservative leanings of the economic elite in a country are correlated with post-liberalization government commitment to the poor. This is meant merely as a first step to motivate future research in this area. We posit that, all else equal, economic elites' beliefs about the causes of poverty can constrain or support governments' commitment to adopt pro-poor redistribution policies in a more economically risky and insecure global environment. In countries where a majority of the economic elite believe that the poor are poor because they are lazy, their veto power will make it more difficult for governments to enact policies that improve the poor's income security. In countries where the economic elite tend to believe that the poor are simply unlucky, pro-poor social policies are likely to prevail alongside liberalization. Thus, we would expect different trends around periods of liberalization for countries with liberal elites versus those with conservative elites.

To examine these trends, we combine survey data on elite ideology with country-level estimates of government commitment to the poor. To classify economic elite ideology as liberal or conservative, we follow Alesina & Angeletos (2005) and rely on survey evidence from the WVS. We classify respondents as members of the economic elite if they identified themselves as being in the eighth decile or above of income earners in their country. In two waves of the WVS (1989–1993 and 1994–1998), respondents in a few countries were asked: "Why do you think there are people in need?" They were then offered a series of possible responses: (*a*) lazy or lack of willpower, (*b*) don't know, (*c*) unlucky, (*d*) injustice in (unfair) society, (*e*) part of modern progress, and (*f*) none of these. Elites who answered "unlucky" or "injustice" (*c* or *d*) were coded as liberal; those who responded "lazy" were coded as conservative. To simplify matters, we looked at the percentage of self-identified economic elites who believe that people in their country are in need because they are lazy. When that percentage was 50% or above, we coded the country as conservative. In a few cases, countries were in both waves of the survey. For each of those cases we took the responses from the more recent survey. **Table 1** lists the countries that fall into each category in terms of their economic elite.

The next step was to determine the first major period of economic liberalization for as many of these countries as possible.[9] For each country in our sample, we coded year 0 for the beginning of the first period of liberalization policies (major reductions in bounded tariff rates, elimination of quantitative restrictions, major privatizations, signing of multiple trade restrictions). Thus, negative years are periods prior to liberalization and positive years follow the first major period of liberalization. **Table 1** lists the countries in our sample with our coded year of trade liberalization.

As a final step, we needed to determine pro-poor policies post-liberalization that are comparable across countries and across time. We relied on accepted measures of human development from the United Nations Human Development Index (HDI). HDI is a composite of widely available measures for health (life expectancy at birth), education (mean and expected years of schooling),[10]

[9]Because we are interested in poverty in developing countries, we eliminated those countries considered to be high income at the time of the surveys. We also eliminated the former Soviet satellite countries as most experienced drastic macroeconomic reforms at the same time as liberalization.

[10]In 2010, the United Nations Development Programme (UNDP) replaced other measures of education with mean and expected years of schooling as a way to "give a better picture of children's current access to education" (United Nations Development Programme 2010, p. 36). Expected years of schooling as the "number of years of schooling that a child of school entrance age can expect to receive if prevailing patterns of age-specific enrolment rates persist throughout the child's life" (p. 223) and mean years of schooling as the "average number of years of education received by people ages 25 and older, converted from education attainment levels using official durations of each level" (p. 224).

Table 1 World Values Survey liberal–conservative elite classification

Country	Trade liberalization year
Conservative:	
Chile	1975
India	1991
Korea, Rep.	1982
Mexico	1985
South Africa	1994
Venezuela, RB	1989
Liberal:	
Argentina	1985
Bangladesh	1985
Brazil	1991
China	1978
Colombia	1981
Dominican Republic	1990
El Salvador	1989
Mexico	1985
Nigeria	1995
Pakistan	1988
Peru	1993
Uruguay	1974

and income (national income per capita, logged to reflect income's diminishing impact on quality of life). The full index is not well suited for examining government commitment to policy because a third of it is income, which only loosely depends on government spending. Removing income from the HDI and examining each of the human capital variables separately leave us with direct measures of human capital—health and education—which depend on government commitment and capacity (Kosack & Tobin 2015). We add infant mortality, which measures a recipient's willingness to offer basic services (see for example Kosack & Tobin 2006, Ross 2006), as an additional measure of government commitment to pro-poor policy. The poor in developing countries acquire health and education with substantial government assistance. Thus, these measures are reasonable proxies for government commitment and capacity to pursue pro-poor policies.

Unfortunately, we are left with a very small country-level sample size from the WVS and are therefore unable to control for the myriad other factors likely to affect government commitment to pro-poor policy outcomes or the possibility of endogeneity. It is important to note that in our small sample, conservative countries tend to be wealthier, on average, than liberal countries. This is more likely an artifact of the data than a systemic phenomenon, but perhaps it explains why social indicators in these countries are better prior to liberalization. Nevertheless, looking at differences between liberal and conservative elites in their post-liberalization periods gives us some idea of the correlation between economic elite beliefs and government commitment to pro-poor policy outcomes. Because of the very limited size of our sample, we are unable to get precise estimates from even the simplest regression analyses. Instead, to gain a preliminary and simplified picture of this relationship, we simply graph policy outcomes in the ten years prior to each country's first liberalization efforts and the ten years following those efforts.

Figure 1 shows a first approximation of a relationship between elite ideology and government commitment to pro-poor policies before and after periods of trade liberalization. The figure shows the rate of change, as an annual percentage, in expected years of schooling, mean years

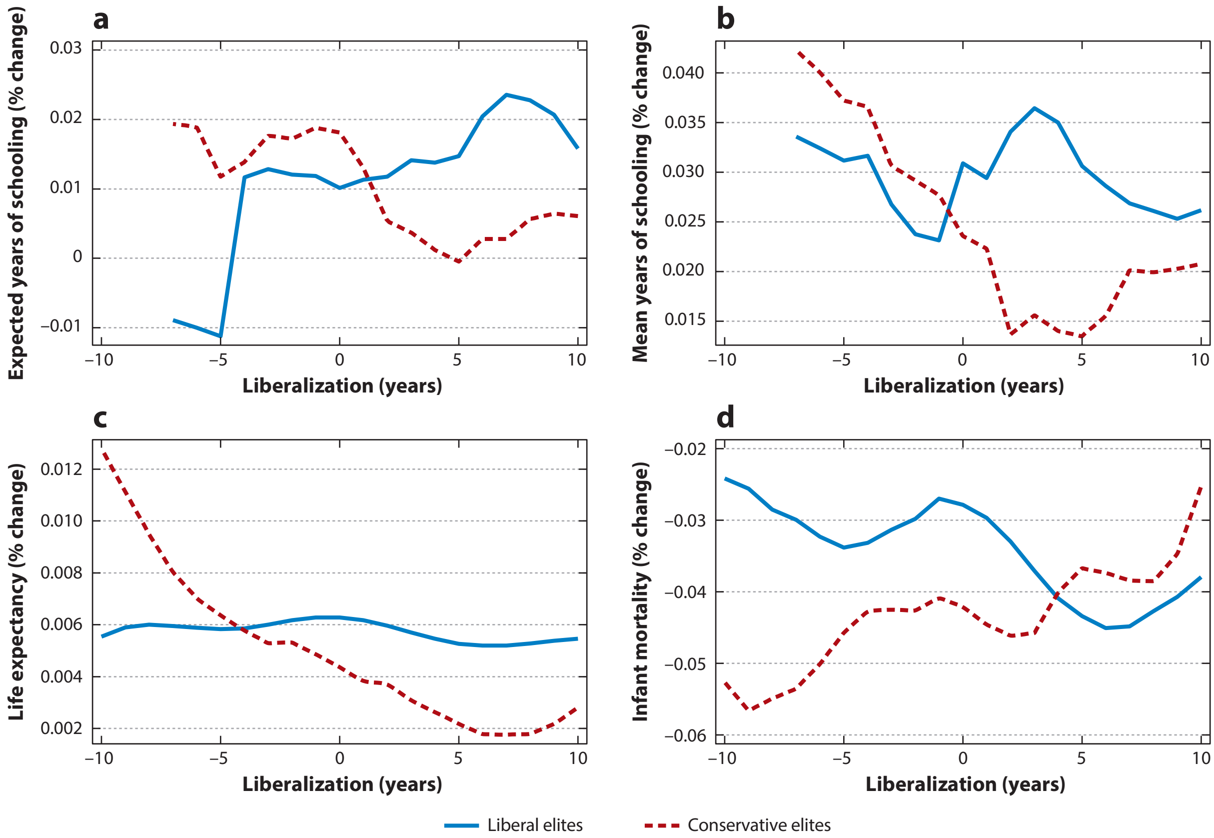

Figure 1

The relationship between elite ideology and government commitment to pro-poor policies before and after periods of trade liberalization as indicated by changes in (*a*) expected years of schooling, (*b*) mean years of schooling, (*c*) life expectancy, and (*d*) infant mortality. Dashed red lines show the average policy outcome for countries with conservative leanings; solid blue lines show the average policy outcome for countries with liberal leanings. The x axes show time in years before and after liberalization, where 0 is the year of liberalization.

of schooling, life expectancy, and infant mortality, among our two groups of interest. By all four measures, countries with a liberal elite majority (the solid line) do better post liberalization than do conservative elite–dominated nations. Our education measures show a steady increase in outcomes post-liberalization for liberal countries, whereas the rate of improvement slows for conservative countries. The rate of change for life expectancy remains strong throughout the liberalization period for liberal-leaning countries, whereas conservative countries see a steady decrease in the rate of change. Finally, for infant mortality, we see a steady decrease (improvement) throughout the period for liberal countries with a steep drop following liberalization, whereas the opposite is true for conservative countries.

In summary, for all of our measures of government commitment, both types of countries show greater poverty reduction throughout the period of liberalization. However, a first look at the data suggests that liberal countries have more pro-poor government policies in the period following liberalization than do conservative countries. These trends are simply suggestive. Nonetheless, they do offer some indication that elite ideology may play a role in government willingness (if not ability) to commit to pro-poor strategies along with globalization. Future research that enables us to understand ideology from a more comparative perspective can also help us to understand the political motivations underlying policies directed at the poorest.

CONCLUSION

Developing economies have made remarkable advances toward international market integration, particularly in the realm of trade liberalization. Although absolute poverty has been steadily decreasing in tandem, the slow pace of the decrease in a great many liberalizing LDCs has been a source of both disappointment and surprise for scholars and policy makers alike. This article aims to provide a conceptual framework for scholars to understand the contemporary debates on globalization and poverty, as well as to suggest avenues of much-needed future research.

The debate over whether globalization is good for the poor is heated, with arguments and evidence for both sides. Recent literature has begun to move away from the straightforward prediction of HOS and instead emphasizes the conditional nature of the relationship. Specifically, liberalizing countries see significant poverty reduction if and when they have beneficial initial conditions: good geography, large endowments of low-skilled labor (rather than unskilled labor), and strong institutions (e.g., property rights, flexible labor markets, rule of law). The challenge is that these conditions exist in few, if any, developing countries. Most LDCs have one or more disadvantageous initial conditions when they embark on the liberalization process.

Regardless of initial conditions, government intervention can facilitate the link between globalization and poverty reduction. Country-level policies such as financial regulation and good governance, as well as more targeted policies such as access to credit, labor market reforms, and social welfare spending, can help the poor to benefit from globalization. This literature, however, stops short of considering the conditions under which governments have the political will to pursue such policies. Studies in political science offer suggestions, highlighting democracy, pro-poor interest groups, and partisanship as the key links in this relationship.

The outstanding problem, we argue, is that LDCs have a poor track record of prioritizing poverty reduction. This is largely because the poor generally lack the ability to form interest groups that can influence policy. We are thus left with incomplete analyses of the conditions under which governments are willing to pursue pro-poor policies concomitant with globalization. Building on Alesina & Angeletos (2005), we suggest that elite ideology may play an important role in determining pro-poor policies because of the disproportionate influence of elites on political decision making in LDCs.

Our broader effort in this review is twofold. First, we hope to encourage scholars to consider not only which policies help the poor benefit from globalization, but also whether and under what conditions governments choose to implement those policies. Second, in suggesting elite ideology as one possible factor underlying the willingness of governments to make pro-poor policies, we hope to spur further research, not only in the area of elite ideology, but also in other possible avenues of determining government action. If the ultimate goal is to ensure that the gains from globalization are more broadly distributed, the willingness of governments to redistribute toward the poor is an obvious linchpin.

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