ORIGINAL RESEARCH PAPER

Economics

Globalization and Poverty in India

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ABSTRACT

Globalization in economic terms may be defined as open current and capital accounts and free movement of labour across nations. Theoretical benefits from globalization may occur if capital and labour move from surplus areas to deficit areas thus equalizing returns to both these resources. The paper argues that Globalization as practiced, has made capital freely mobile while labour has been restricted from movement across borders. Moreover, the design of international financial system has forced a number of poor countries to export capital to western development countries by way of maintenance of foreign exchange reserves. With poverty manifesting itself in form of poor health, education and capabilities of individuals in general, the paper argues that globalization as practised has been particularly detrimental to vulnerable sections of society in developing countries. Those who have been able to enjoy fruits of globalization were already endowed with good health, education and capabilities.

Introduction

The debate about globalization is heavy and ongoing. Both globalization and poverty are multidimensional and multifaceted concepts. Globalization in its theoretical sense must allow for the free movement of capital and human labour across nations. With this approach the developed economies should find bigger markets in the developing world and the developing nations should benefit from the capital investments to improve the overall wellbeing of the citizenry to alleviate poverty. This paper intends to review how globalization has been practiced and critically examine its effect on poverty.

Globalization

Globalization is a relatively new term used for a rather vast theory that pertains to almost all aspects of life even though its economic aspect has been the most highlighted one. Stanley Fischer (Fischer, 2003) for example defines it as "the ongoing process of growing economic interdependence between countries" (p. 3), and Jagdish Bhagwati (Bhagwati, 2004) as "integration of national economies into the international, by flows of goods, money, people and technology". In its most common parlance globalization represents the historical process of integration of world economies by uninhibited trade and financial flows (Basu, 2004). Ideally, it also includes free inter-country movement of labour.

The proponents of globalization state that the fundamental principal to promote efficiency is through competition and global markets offer greater opportunity for the people to tap in to larger markets around the world. It means that they can have access to more capital flows, technology, cheaper imports, and larger export markets. The opponents hold that the open markets do not necessarily mean that the benefits of increased efficiency are shared by all.

Globalization and Capitalism

Globalization and capitalism are like twin siblings, both with their own unique capabilities and flaws, not always walking or running at the same speed, but in the long run, they always end up walking hand in hand. Eighteenth and Nineteenth centuries saw the heydays of capitalistic system leading to economic growth and progress. However, events in the 1930s raised serious questions on market led growth and economic systems. Market forces had failed to bring back the economy on path of progress and stability. The Great Depression of 1930 had resulted in widespread unemployment and hyperinflation of Germany had dragged the monetary system on brink of breakdown.

Just then Keynesian solutions of active economic policy through government intervention, use of authoritative control and management, showed ways for survival of capitalism. A new version of capitalism came into acceptance, which may be named as "Controlled Capitalism".

Opposition to Globalization

As per Bardhan (Bardhan, 2002) a large part of the opposition to globalization relates to its three different aspects:

(a) The fragility of valued local and indigenous cultures of masses of people in the world facing the onslaught of global mass production and cultural homogenization (through global brand-name products, movies, music, fast food, soft drink, internet, the English language, etc.);
(b) The devastation caused to fragile economies by billions of dollars of volatile short-term capital stampeding around the globe in herd-like movements;
(c) The damage caused to jobs, wages and incomes of poor people by the dislocations and competition of international trade and foreign investment and the weakening of the ability of the state to compensate for this damage and in general to alleviate poverty and inequality.

These three issues are inter-related: for example, ethnic handicrafts of the indigenous people wiped out by imports of mass-produced manufactures may be seen as both economic and cultural loss; when short-term speculative capital rushes out of a developing country it inevitably has adverse effects on its medium to long-term investment climate as well.

Globalization and India

(SOO, 2006) The Indian economy has been in transition since the early 1980s. Till the 1980s the economy was largely based on central planning, leaving private enterprise on the periphery of the economy, governed by a strict set of licensing requirements. This started to change in the 1980s. First Indira Gandhi in early 1980s and then Rajiv Gandhi in 1985 began a process of liberalizing the economy (Aghion, Burgess, Redding, & Zilibotti, 2008). This was followed in 1991 by a much larger-scale liberalization, which involved removing almost all licensing requirements from industry. Tariff barriers were also progressively reduced and restrictions on foreign direct investment (FDI) relaxed. It is therefore important for us to separate the effects of delicensing from those of trade and FDI liberalization. Liberalization of the 1990s coupled with across the board tariff reduction brought India on the world globalization map.

The proponents of globalization claim that the emergence of global integration brought with it a lot many obvious gains, in terms of high rates of growth, transfer of technology, availability of funds and induction of competition.

However, there are some scholars who argue that globalization, as such, does not have any such significance in improving the poverty situation in India. Their argument is that free markets must lead to equalization of opportunities, usage of resources prices; provided there is uninterrupted mobility of factors of production, especially labour & capital. This, they argue, did not happen in practice, as flow of capital was freed while restrictions on movement of labour continued to exist.

Poverty

Don't ask me what poverty is because you have met it outside my house. Look at the house and count the number of holes. Look at my utensils and the clothes that I am wearing. Look at everything and write what you see. What you see is poverty. —A poor man, Kenya 1997[1]

The above definition is incomplete as it captures only material poverty. Poverty is a lack of something[2] . It is general scarcity or the state of one who lacks a certain amount of material possessions or money. Poverty is lack of education which in today's competitive economy renders and individual unable to find employment of even the lowest class. Poverty is a multidimensional and a multifaceted concept. Amartya Sen (Sen, 1999) sees poverty as a deprivation of basic capabilities, rather than merely as low income.

Causes of Poverty

Alex Hou Hong Ng et. al. (Ng, Farinda, Kan, Lim, & Ting, 2013) identified that poverty has resulted in individuals not having choices and opportunities to get fundamental needs for survival including food, shelter and clothing. Subsequently, they are unable to participate effectively in society towards development of a strong community as they lack these basic capacities. It leads to insecurity, and exclusion of individuals, households and communities. The main causes of poverty are corruption; education; political instability and wars; natural and geographical characteristics; and ineffective local governance and government policies. The fact that poverty is quite multi-dimensional and varies from place to place and from society to society, it is important to identify the causes of poverty.

Globalization and Poverty

Chandrasekhar and Pal (Chandrasekhar & Pal, 2006) propose that three important outcomes of financial liberalisation. First, increased financial fragility, which the irrational boom in India's stock market epitomises. Second, a deflationary macroeconomic stance, which adversely affects public capital formation and the objectives of promoting employment and reducing poverty. Finally, a credit squeeze for the commodity producing sectors and a decline in credit delivery to rural India and small scale industry. The belief that the financial deepening that results from liberalisation would in myriad way neutralise these effects has not been realised.

Jayati Ghosh (Ghosh, 2011) argues that the need to attract internationally mobile capital means that there are limits to the possibilities of enhancing taxation, especially on capital. Typically, prior or simultaneous trade liberalisation has already reduced the indirect tax revenues of states undertaking financial liberalisation, which is why tax–GDP ratios often deteriorate in the wake of such liberalisation. This then imposes limits on government spending, since finance capital is generally opposed to large fiscal deficits. This not only affects the possibilities for counter-cyclical macroeconomic stances of the state but also reduces the developmental or growth-oriented activities of the government.

Conclusion

This paper has attempted to review the various dimensions of economic globalization viz. Trade, Capital Flows and Movement of Labour. The paper also reviewed the broader definition of poverty which includes not just income but also levels of education, health, nourishment etc. Evidence was found that the way globalization is practiced necessitates export of capital from developing to developed countries. In additional to visible export of financial capital, human capital has also been moving from developing to developed worlds. Deflationary bias is a corollary to inviting capital investments. These three effects combined have had a detrimental effect on poverty alleviation efforts in developing countries. The stated definitions of poverty and the underlying causes call for a strategy of poverty alleviation which must include publically provided free or highly subsidized health and educational facilities. With a healthy and educated citizenry corruption and mal governance can be effectively tackled.

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