Review of The Long and Short of It: Globalization and the Incomes of the Poor by Christina E. Weller and Adam Hersh. *Journal of Post Keynesian Economics*, spring 2004, 26, 3: 471-504.

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Abstract:

Weller and Hersh (2004) test the impacts of liberalization on intracountry poverty. Their findings suggest that liberalization worsens the income share of the poor in the short run and fails to continuously boost growth in the long run. They carefully distinguish liberalization, as policy actions, from the economic outcomes of trade and capital flows, which makes their empirical test relevant and plausible.

Keywords: Liberalization; Poverty

This is a well-researched paper addressing the impacts of liberalization on intracountry poverty in both the short-term and the long-term. The authors have provided a sound conceptualization of the issue and a robust empirical analysis. The results of the authors' econometric exercises lead them to conclude that "countries where trade and capital flows in a regulated environment do best for the poor" (499).

The authors start out by noting the increasing inequality at three levels. First, measured by the distribution of per capita GDP, inequality is rising between countries. Second, poverty increases within countries in the 1980s and 1990s. Third, inequality between individuals at the global level (regardless of their national identities) has also risen in the 1980s but stabilized in the 1990s. These results hold despite different measures of absolute poverty. Based on a more methodologically appropriate measure - the cost of basic goods and services, the poverty incidence was even higher.

The impact of trade and capital flows on poverty is controversial. The authors examine some of the arguments. For example, some argue that trade accelerates technological and structural changes, which favor skilled workers and hence worsen inequality. By contrast, others argue that if trade facilitates technological transfer, it would enhance growth and therefore benefit the poor. More importantly, liberalized trade may hijack pro-poor policies and amplify import competition, thus adversely affecting the poor. Given these contradictory theories and evidence, the authors embark on an empirical analysis. Three hypotheses are tested: first, deregulated trade reduces the income of the poor; second, capital account liberalization and the ensued instability exacerbates inequality; and third, liberalization may bring about long-term growth and hence offset the short-run perverse impacts. In the short-run analysis, different regressions are run with the income share of the poorest 20% in developing countries as the dependent

variable and a host of explanatory variables, including the share of people enrolled in secondary education, the ratio of government expenditure to GDP, the ratio of trade to GDP and the liberalization index. The results seem to consistently suggest that liberalization has a significant, negative impact on the income share of the poor. Income share of the poor tends to be reduced by unregulated trade but enhanced by regulated trade. Moreover, the macro instability test suggests that volatility, rather than low level of growth, hurts the poor disproportionately.

In the long-term model, the authors test the impacts of liberalization on the average growth rate of the real local currency per capita GDP for 20-year periods. The test yields many interesting results. What is most noteworthy is that the test does not support the hypothesis that openness is beneficial for long-term growth. The authors also break the sample into two sub-periods before and after 1994. What they find is that even though openness, trade and FDI have a positive and significant impact on the growth rate in the first sub-period, the impact becomes insignificant in the second sub-period. In other words, the positive impacts of unregulated trade and FDI on growth rate disappear over time.

In the final analysis, the authors are able to provide a robust empirical analysis, showing that liberalization has a negative impact on the income share of the poor in the short run and that liberalization does not seem to contribute positively to growth in the long run. The strengths of the study are two-folded: first, the authors carefully distinguish liberalization, which is a policy action, from trade and capital flows, which are economic outcomes; because trade and capital flows may increase despite regulation, and vice versa. Moreover, the relevant question is not *whether* or not trade and capital flows reduce poverty, but *what* kind of trade and capital flows (regulated or deregulated) reduce poverty. Second, the authors distinguish the short-term impacts from the long-term ones. Their results effectively challenge the view that liberalization brings about shot-term pain; but as long as countries survive the short-term negative shocks, they will gain in the long haul. Even though econometric exercises should always be read with great caution and specific institutional contexts are missing in the cross-sectional analysis, this article still makes a positive contribution to the field and brings forth many provocative questions.

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