The trinity of equity, equality and poverty in the scenario of economic globalization : which institutions matter ?

Saadia Irshad

The Trinity of Equity, Equality and Poverty in the scenario of Economic Globalization: Which Institutions matter?

Saadia IRHSAD
CREG, Université Pierre-Mendès France

June, 2011

ABSTRACT

Equality and Equity, prime principles of justice in creation and distribution of income and assets, have plural, circular and retroactive relationships with globalization, growth and poverty. The objective of this paper is to establish a notion that which of these principles is to be followed and by which institutions in order to tackle the despicable stigma of poverty. In this aim, the first section of paper presents critical evaluation of equity vs. equality debate, specifically focusing on the processes of creation and distribution of outcomes and opportunities. The second section draws on the relative significance of institutions, principally government and IFIs, in these processes in order to spur growth, equality and wellbeing. This follows to the third section exhibiting some policy implications and recommendations. The paper concludes that no particular form of institution or principle of justice is 'panacea' to social and economic objectives, including reducing wide inequalities.

Keywords: Equity, Inequality, Poverty, Globalization, Institutions

JEL: D63, D60, I30, F15, O19, E02

Saadia IRSHAD (saadirsh@gmail.com), PhD (2nd year), Centre de recherche en économie de Grenoble (CREG), Université Pierre-Mendès France (UPMF), Grenoble, France

This paper is written for International conference on "Justice and Economics: ancient doctrines and modern theories", at the University of Toulouse I – Capitole (France), on June 16-17, 2011

INTRODUCTION

Equality and Equity, prime principles of justice in creation and distribution of income and assets, have plural, circular and retroactive relationships with globalization, growth and poverty, with particular significance of national institutions like government and supranational institutions like international financial institutions (IFIs). The conceptual analysis of these relationships is important in these times when Washington Consensus has been failed to spur growth and eradicate poverty fast enough to meet MDGs (rising tides can drown many boats, instead of lifting all boats), along with increasing political tensions from 'war on terror'. The evidence from theoretical and empirical studies implied that the nature and scope of inequality cannot be captured by income disparities alone; asset inequalities i.e. inequality of opportunity, like inequality in educational attainment, health standards, access to clean water and sanitation, access to government services etc. are indispensible social and economic indicators in order to gauge inequality (Sen,1973). In the distribution policies, asset equality (pro-poor investment in health and education) is deemed to be more practical and less politically-biased than equity principle at work in case of taxation, property rights, and land reforms. In the trinity of equity, equality and poverty, being complicated by increasing incidence of economic globalization, a variety of tradeoffs, dilemmas, traps, thresholds and vicious circles are involved (Bourguignon et al. 2007) to which there are no easy answers.

In this respect, much consensus has been developed on "institutions matter" (North, 1994), but which institutions, under what conditions, and to what extent, are contentious and debatable concerns.

In this aim, the paper is divided into three sections where first section presents critical evaluation of equity vs. equality debate, specifically focusing on the processes of creation and distribution of outcomes and opportunities. The second section draws on the relative significance of institutions, principally government and IFIs, in these processes in order to spur growth, equality and wellbeing. This follows to the third section exhibiting some policy implications and recommendations. The final section concludes the debate.

I. EQUITY AND EQUALITY IN THE ERA OF ECONOMIC GLOBALIZATION – IS THERE ANY 'PERFECT RECIPE' FOR THE POOR?

Economic globalization implies economic integration among countries, brought about by the movement of goods, services, technology and factors of production, directly affecting relative factor earnings between and within countries, and ultimately impacting economic growth and income inequality. So, apropos to economic globalization and ensuing Washington Consensus, the adjustment experiences in 1980s and the stabilization and liberalization experiences in the 1990s resulted in the renewed attention to the issues on inequality and poverty. Being out of fashion for many years among policy makers of rich countries, inequality and redistribution appeared as mere reference in the Millennium Development Goals. One stream of thought argued that the best way to tackle poverty is to grow out of poverty but income inequality usually results from deep rooted societal structures, which take time to change. Other stream of though viewed measures to reduce inequality as detrimental to growth and therefore not warranted during periods of adjustment when all emphasis is needed to be placed on reviving growth quickly. Such views are often contested (van der Hoeven, 1995, 2000; Ravallion, 1997), but part of mainstream discussions of academics and policy-makers since end of 1990s (Rodrik, 1998; Furman and Stiglitz, 1998; Tanzi and Chu, 1998). This increased focus is partly explained by economic reasons (i.e. new growth theory implies that large inequalities may be harmful to growth[1]) and partly by socio-political reasons (i.e. large inequalities may provoke a coalition of different groups in societies).

Income inequality is not only hard to capture through consistent data sets, but also insufficient to measure the extent and depth of inequality. At the global level, the consensus is that the trend ever since 1820 has been one of divergence, with increasing income disparity between the world's richest and poorest households, at least up until the Second World War (Pritchett, 1997). Some, however, argue that because of China's extraordinarily rapid growth since 1980, global divergence not only slowed down, but also may have reversed in the last decade . Berry (2002) goes further to affirm that, after increasing for more than a century, global inequality has not changed very much since 1950. However, the nature and scope of inequality is impossible to be captured by income disparities alone. It must also take into account the asset inequality (asset inequality is typically greater than income inequality), but the absence of economic and social indicators makes it almost impossible to measure asset inequality.

Some inequality is deemed to be necessary to spur incentives and to reward those with relatively more skill, drive or appetite for risk. At the end of the day, these entrepreneurs, although acting for themselves, also create wealth for the society as a whole. Moreover, equity is a fundamental concept for justice - the more one puts in, the more one deserves. Accordingly, the complete equality can end up on free-riding where incompetent eat the effort of others. This argument is usually backed by the advent of communism,

---

[1] The discussion on inequality and growth has received impetus from authors who combined new growth theory, endoginizing technical progress, with political economic models, endoginizing political decisions. These authors argue that inequality is harmful to growth. There are several causal links underlying this notion. Links on a more traditional economic footing, include the effect of income inequality on the composition of the demand and on factor endowment affecting the supply of human capital. A more equal income distribution leads to an increased demand for industrial goods which triggers off innovation and growth. Growth is further enhanced by increased investment in education by low income groups, as a consequence of increased equality in income and capital, allowing them to build up stocks of human capital more rapidly Alesina and Perotti (1994).

its failure and finally collapse of Soviet Union. In theory, everyone was equal. But with no personal incentives, people's desire to get ahead is harnessed, so there is very little drive behind an economy and, consequently, wealth creation is subdued. However, too little equality may have its own problems. Robert Reich, the former US Secretary of Labor, has written extensively on the problems of inequality, noted that it "*leads to distress and misery for those at or near the bottom and anxiety for those in the middle. Left un-checked, it could also undermine the stability and moral authority of the nation*" (Reich 1997). Although, academic literature used to stress the positive role of income inequality in rewarding 'wealth creators' as a way to encourage innovation and growth, there is now, however, growing impetus that inequality is bad for growth and poverty. One argument in this regard is that in an unequal society, elites find it easier to 'control' governments and other institutions, and use them for their own narrow interests, rather than the overall economic wellbeing. It is only one of many inter-related aspects of inequality-institutions relationship covered in next section. Inequality is much more than a technical barrier to growth or poverty reduction[2].

In this connection, social scientists have been, since long, actively trying to strike a balance between two relevant but conflicting principles of justice – equity and equality. Equity can be called 'meritocracy' highlighted by individual competition and self-reliance i.e. the more one gives, the more one should get. Equality reflects collective cooperation where each gets according to one's need. The choice between equity and equality is complicated and the conflict between the two is timeless. The tension between the two is so severe even in political arenas that conservatives and democrats usually take opposing stances in policy-making on the basis of these two principles. According to the author Llosa Mario Vargas, "*Prosperity or egalitarianism -- you have to choose. I favor freedom -- you never achieve real equality anyway; you simply sacrifice prosperity for an illusion"*. Which one is fair – equity or equality? A number of empirical studies have established that fairness is an important economic force in labor markets, product markets, income and wealth redistribution policies, and government regulation. However, vital issues raised by John Stuart Mill in 19th century about fairness even persist today. On one hand, there is ample research which spur the notions like equality preferences are consistent with observed intra-firm salary compression, equal payoffs facilitate, and equality has been central to much normative work (Rawls, 1971; Walzer, 1983). On the other hand, labor markets are characterized by increasing wage inequality, which is viewed partly due to productivity differences (Lemieux, MacLeod and Parent, 2009). The standard for inequality in most justice research is proportionality of rewards to

[2] Writing in 500 BC, Plato reminded Athenian legislators about the moral abomination triggered by extreme inequality. '*There should exist among the citizens neither extreme poverty nor again excessive wealth…..for both are productive of great evil'* (quoted in HDR 2005, P.51)

contributions, which is called "equity". Various empirical studies have validated the economic significance of equity e.g. Gächter and Riedl (2005), Konow *et al.*, (2008) etc. Equity and equality imply very large and important differences in the allocation and redistribution of social and economic resources, but no consensus has yet developed about which rule is fair, or, if multiple rules are fair, under what conditions each rule applies.

In this context, it is relevant to shed some light on two broad redistributive principles - vertical equity and horizontal equity. The vertical equity (VE) is meant to assess the equity of policies' impact on individuals with differing initial levels of "wellbeing" whereas horizontal equity (HE) helps evaluate the equity of the impact across individuals who are equal in all "relevant respects". In the context of the redistribution of income, VE usually demands that the net fiscal burden should increase with individuals' capacity to pay i.e. income before tax. HE demands that individuals with equal capacities to pay should be treated equally by the net tax system. Perhaps the most widely accepted principle of equity in taxation is that people in equal positions should be treated equally. The principles of VE and HE are normally applied to the monetary dimension of the government's impact (Duclos, 2006). However, material wellbeing is only one of the dimensions of wellbeing; other dimensions may be decisive in comparisons of the benefits and drawbacks associated with various government policies. These dimensions are closely related to Rawls' primary goods and Sen's capabilities like formal freedoms, capacity to escape from material poverty, capacity to participate in social and public life, capacity to achieve self-respect, peace and security, freedom of choice of production, consumption and lifestyle. In such a multidimensional context, HE could be refined as requiring that individuals who are ethically equal in each dimension of well-being should also be treated equally in each of these dimensions. This, of course, raises several issues, of which one of the most difficult is how to measure these multiple dimensions of well-being. To see it through the lens of opportunities, inequality in access to education, health facilities, or access to public services reflects the social face of poverty. As shown by Bourguignon *et al* (2003, 2007), inequality of opportunity due to circumstances beyond the control of individuals (being born in a particular sect, race, region, parents) accounts for a large share of income inequality in developing countries. It implies that dimensions of poverty are dynamic processes with different time horizons, leading *to intergenerational poverty traps* where low levels of education and health are combined with lack of employment and a high birth rate. It perpetuates low levels of health, education and so forth. It implies that unequal outcomes in one generation predetermine, provided there is no state intervention, the inequalities of opportunity of the next generation and the rate of growth of average incomes (Osberg, 1995).

Here, it is significant to argue that growth can eradicate poverty or else, redistribution would be required to do the needful. If the benefits of growth are skewed to the rich, and the poor benefit only slightly, then a much faster overall rate of growth would be required to get desired reduction in poverty. However, if widening inequalities mean that the poor are not benefitting at all or are experiencing a real deterioration in their living standards, then no amount of growth can help. The only solution then would be to redistribute in favor of the poor (Culpeper, 2005). The prospect of redistribution poses a serious challenge to those who believe that any interference in market-determined incomes weakens the incentives to invest and prosper, and therefore undermines growth itself. In this context, an important distinction to be made is between the distribution of income and the distribution of assets, particularly land. Even if there are unhindered incentives to grow and prosper, unequal land distribution provides large landowners with greater opportunities than small landholders. But land reforms are so politically contentious that substantial redistribution of this asset is unlikely to take place, unless market-based mechanisms are available (World Bank, 2001). Therefore, for those resistant to policies of income redistribution, the focus of asset distribution remained on human capital. Skewness of investment in education and health towards the poor is politically easier than land reform, and it can be expected to improve the income and assets of the poor via intergenerational model. It reflects the favor for equality of opportunity (e.g. access to education, freedom from discrimination, equality before the law), with only a minor role for greater equality of outcome, i.e. below poverty line or reducing absolute destitution. Be it progressive taxation or land reforms, the processes and vehicles of redistribution need to be treated with great caution. Here, the state and international financial institutions imply a host of crucial facets, which are discussed in next section.

This section is deemed to be ended from where it began. It is still contentiously debatable that policies of economic globalization and liberalization are improving or worsening inequalities. However, it is also true that globalization, as increased international economic integration, could provide considerable benefits through growing incomes and employment opportunities. The hoax, particularly for developing countries, is to capture the benefits available from trade, capital flows and migration, while avoiding the costs (UNDP 1999). In this regard, developing countries should be allowed to adopt a logical (but wishful as it seems at this point of time) approach. It means that if liberalization has a significantly negative impact on income, asset distribution, employment and inequality, then developing countries should choose the speed and sequencing of liberalization measures that have significantly positive impact. Rodrik (2001) goes further by arguing for the right of developing countries to opt for “institutional arrangements” that work in the right directions, for example, by protecting domestic markets. Thus, increased access to industrial country markets should not only be achieved by giving industrial countries corresponding access to developing country markets, where such access undermines local population. This is particularly the case where industrial countries distort markets through subsidies in agriculture. In this aim, the next section is going to give prominent impetus to the role of international financial institutions vis-à-vis government.

II. STATE VS. IFIs – POOR NEED 'FRIENDSHIP" BETWEEN THE TWO:

The increased recognition of the role of institutions in growth, equality and poverty processes is linked to developments in economic theory, apropos to the mixed results of reform programs and aid flows directed towards developing world. Institutions can be classified in various ways e.g. macroeconomic or microeconomic, state or non-state, market or non-market, formal or informal. They may also be either internal to states or external, like 'supranational' institutions involved in global governance. These supranational institutions play a crucial role in developing countries, whose economies and national institutions are often dependent on the international financial institutions (IFIs). The economic role of IFIs gained significance from the concepts of poverty traps, vicious circles and threshold effects. Below certain income thresholds, poor countries can no longer benefit from increasing returns, making massive capital injections indispensible. As explained by Paul Rosenstein-Rodan (1943), breaking the processes associated with poverty traps requires "Big Push" policies. These policies may be designed and implemented either by state or IFIs or both.

Although there is now a consensus that institutions are important for growth and poverty, it is still difficult to determine how to take them functionally in order to design and implement effective policies for poverty reduction. There are several issues on which no agreement exists, including but not limited to, the role of the state; the direction of causalities (from institutions to growth, or from growth to institutions); the endogenous nature of institutions with respect to other factors of growth and poverty, such as market structure, geography, integration in the international economy and dependence on commodities exports; the relative contribution of all these factors; and the channels through which these causalities work (Sindzingre, 2005). Reforms may act on institutions directly or on other factors that in turn affect institutions, as in the case of liberalisation reforms.

The analysis of institutions has been refined by the impact of trade liberalisation and globalization. Empirical evidence has outcasted the traditional forms or variables of institutions necessary for growth such as secured property rights, low level of corruption, government accountability and transparency. Unorthodox institutional ingredients e.g. state intervention and bureaucracy had enabled developmental states like Korea and Taiwan to exhibit spectacular growth rates (Culpeper, 2005). According to Rodrik (2007), China has registered high growth rates in the absence of institutions that secure and formally delimit property rights. Contrary to the arguments of Dollar and Kraay (2003), some "heterodox" economists have affirmed that countries displaying outstanding growth and poverty reduction, such as China, have achieved this performance not as a result of liberalisation policies but policies similar to those adopted by the Asian developmental states. Such economists consider that state can play an effective role for promoting growth and reducing income & asset inequality and poverty. However, IFIs striving for similar goals in developing nations, since 1980s till now, is somewhat confused in this regard.

Limiting the role of the state has been a point of central focus during liberalization reforms of 1980s and 1990s. Crises-stricken countries, particularly from Latin America and Sub-Saharan Africa, had to agree to the conditionalities of IFIs to get financing from them. These conditionalities were strongly influenced by conception of the state as the "culprit", responsible for the sluggish growth and bad macroeconomic policies. The stabilization and structural adjustment programs by IMF and World Bank therefore tried to reduce the intervention of the state and state institutions in the economy, and recommended the privatization of public enterprises. These programs were aimed at dismantling public enterprises and state institutions as they were perceived as obstacles to market forces, thereby causing budget overruns and economic distortion. IFIs also gave social arguments for these anti-state reforms i.e. the inefficiency and costliness of state institutions is primarily borne by the poorest. Interestingly, the state and national institutions were seen as impediments to implementation of reforms and growth, while external institutions, i.e. IFIs, enjoyed full legitimacy to transform a country from outside, through the use of conditionality. However, academic research of Amartya Sen and Dani Rodrik influenced IFIs at the end of 1990s to support the idea that growth is associated with "high quality" institutions and public sector. It is thus established that market forces by themselves cannot ensure efficient outcomes, let alone equitable ones. The success of theories of market failure and information asymmetries, put forward by Joseph Stiglitz among others, undoubtedly contributed to this change in perspective on the role of the state. Privatizations made as part of reform program with minimalistic role of state met with mixed success, which recognized the vital role of state as guarantor of property rights and contracts.

One of the most important questions of modem times is how to fabricate government policy so that the overall wellbeing advances for the benefit of all classes i.e. equity vs. equality. Researchers like Tullock (1983) and Peltzman (1980) identified redistribution as the most important function of government, and that it is a major source of the growth in the size of the fiscal state (Scully, 2002). To spur economic growth, government has to get out of the way of personal decision making and the forces and consequences of free market exchange. However, government does contribute to economic growth by providing infrastructure, public health facilities, expanding educational opportunities, and protecting property and contract. Since resources are required for these activities, therefore, some intervention in market outcomes or failures is admissible[3]. Up to some level, these activities are growth-promoting. But beyond a certain size of the fiscal state, taxation, transfers, and market intervention are about redistribution and have a price. As Okun (1975) pointed out, transfers are made with a "*leaky bucket*" i.e. loss of national output arising from redistribution. Changes in distribution of assets and human capital should become a necessary complement of macroeconomic policies to reduce inequality and stimulate growth (Scully, 2002). It thus weakens the arguments often made that policies of (re)distribution are less relevant than stimulating overall growth in a poverty alleviation strategy because a steady state growth will lift gradually all people i.e. rising tides lift all boats!

By definition, tax policies are aimed at the redistribution of income in the economy, however, the extent of this possibility is often questionable. In many developing countries, tax systems rely heavily upon indirect taxes, making tax system regressive rather than progressive. A tax base in favor of direct taxes i.e. Progressive taxation could make secondary income distribution much more equal. However, there is little consensus on whether income distribution is desirable for equality and how to create greater equality of outcomes for overall wellbeing. In this regard, decision makers disagree whether heavy taxes should be paid by a billionaire celebrity to fund schools and hospitals for the poor[4]. IFIs are highly cautious about the potential economic disruption caused by high income taxes or radical land reforms, whereas others believe that progressive redistribution of assets is needed to kick-start a virtuous cycle of equity, equality and growth.

While discussing government policies to create and distribute income and assets, the role of politics cannot be ignored. As per economics of inequality, the possibility of acquiring factors of production, the right to take benefit from them and initial endowment determine each person's amount of income (Champernowne and Cowell, 1998). Institutional and political processes affect this amount because they transform the individual's incentives and constraints the range of activities they can undertake. These processes set the rules that figure out property rights and the rewards of each factor. There are various cross-section and panel data methods to investigate empirically the effect of property rights on income inequality in developing countries. Such institutions can aggravate inequality if they preserve or increase

[3] International mobility of capital and labour, along with other developments by technology and globalization such as e-commerce, derivatives & hedge funds, and offshore financial centers, is likely to undermine the revenues that states need to undertake such initiatives—whether they involve reallocation of funding to education, health and social expenditures, redistribution of assets such as land, or simply using income taxation.

[4] When asked for his views on inequality and redistribution in the 2001 election campaign, the British Prime Minister, Tony Blair, famously bent the question by replying 'It's not a burning ambition for me to make sure that David Beckham earns less money' (Guardian, Dec 23, 2005)

the economic and political interests of privileged minorities. For instance, one's property rights can also be protected by weakening the risk of expropriation of productive assets via controlling the political system, by erecting barriers to entry, or by setting favorable tax regimes, as well as engaging in rent-seeking activities (Easaw and Savoia, 2009). Bourguignon *et al*. (2007) call for a systematic analysis of the effect of institutions on the persistence of inequality. Bowles (2004) has used the term "institutional poverty traps" to refer to institutional arrangements that prompt inequality. Recent literature suggests that the actual trajectory of inequality could depend on institutional arrangements implemented by governments to distribute the gains of economic growth across the population (Acemoglu et al., 2005). The redistributive role of democracies could be 'indirect', rather than directly through public expenditure. Robinson (2001) argued and provided evidence that democracies redistribute by increasing the wages through reforms of labour market institutions; e.g. unionization to improve the bargaining power, higher minimum wages, favorable hiring and firing practices etc. Referring to Acemoglu (2008), it is suggested that the property rights work differently in democratic environments than in oligarchic ones. In the latter, the elite minorities have enough political power to control markets by erecting entry barriers e.g. through direct regulation, obtaining subsidized credit or inputs etc. as well as by guarding themselves from expropriation and from redistributive taxation, thereby protecting their own property rights. In most cases, the property rights in developing economies reflect the unequal balance of political power. Therefore, economic and social inequality is also explained by the interplay of political and economic institutions[5].

In this connection, an important aspect is the international redistribution of wealth, in form of development aid, mostly directed by IFIs upon fulfillment of conditionalities by developing countries. In late 1990s, the mixed results of development aid gave rise to serious questions about its relevance for institutions of developing countries. Aid flows can finance the costs of reform (new regulations, state of law, assistance in holding elections, etc.) or strengthen young and fragile institutions or improve the legal and regulatory framework. However, aid can also perpetuate corruption while recipient government may exhibit a weak "ownership" of the reforms on which these financial flows depend. The growing concern about the effectiveness of aid led economists to use a criterion of allocation – the quality of a recipient country's institutions and policies. Various studies have been undertaken to see whether observed allocation of aid is influenced by the quality of institutions and policies in recipient. Most prominently, Collier and Dollar (2002) used this new approach to suggest optimal allocation of aid and suggested a

[5] Even internationally, political decisions have also piled up global economic governance against the poorest countries, widening the gulf between rich and poor nations. The powerful nations have asserted on opening up Southern markets to flows of capital and goods, where transnational corporations take the benefit, while restricting the flows human capital (immigration laws) and knowledge (intellectual property laws) that would largely be advantageous to the poor nations.

growth equation that focused on decreasing marginal effectiveness of aid depending on the quality of institutions and policies. IFIs put forward the notions of capacity building and institution building for the states whose institutions have deteriorated. The reforms stemming from the political, social or economic conceptions of public institutions face the general problem that effectiveness of external aid has its limits when focusing on a notion as multidimensional as that of institutions. Since the 1990s, donors have been in agreement with academic economists on the issue of "institutions matter" and believe that a share of aid should go towards institution building. However, there are still many traps and unexpected effects, no matter whether the aid in question directs towards the building of legal systems or in financial flows.

Any institution can be growth-promoting in theory, but whether it is so in practice can only be observed ex post because in case of growth, the content of institutions matters more than their form, as does the way the various institutions are combined in a given society. What is necessary is a government capable of taking action and institutions capable of easing social conflicts, including those arising from globalization and trade liberalisation. A series of studies, notably by Dani Rodrik, have shown that countries need strong, effective institutions in order to dampen the negative effects of globalization while reaping the benefits. Endogeneity affects all the causal and circular relationships among globalization, institutions, economic policies, inequality, growth, and poverty. Some of these relationships are touched in section I and II which have various policy implications, to be discussed in next section.

III. POLICY IMPLICATION AND RECOMMENDATIONS:

The traditional sources of inequality, such as land concentration, urban bias and inequality in education, although still significant, do not appear to be the principle causes of worsening inequality during last three decades. Although trade is deemed as one of the inequality transmission mechanisms, however, there are certain new sources of inequality in current times, such as excessively liberal economic policy regimes, and the way in which such policies have been carried out (Cornia and Court 2001). In particular, macroeconomic stabilization policies, financial sector and capital account regulation, and labour market policies have all contributed toward widening inequalities, and therefore need to be reconsidered.

In this connection, IFIs and multilateral development agencies, other than World Bank and IMF, are relatively focused, yet slightly 'wishful' in terms of global governance. In *Globalization with a Human Face,* UNDP report (1999) criticized rising imbalance between rapidly expanding global markets and inadequate global governance. "*When the market goes too far in dominating social and political outcomes, the opportunities and rewards of globalization spread unequally and inequitably—concentrating power and wealth in a select group of people, nations and corporations, marginalizing the* *others…The challenge is…not to stop the expansion of global markets [but] to find the rules and institutions for stronger governance—local, national regional and global…to ensure that globalization works for people*". Such extensive and rigorous changes in global governance would surely introduce profound modifications in the global rules of the game, likely to be in favor of the poor countries and people. Indeed, these changes apparently seem completely unrealistic. Because of this very reason, they are unlikely to come about in the foreseeable future. But they reveal a fundamental notion that current globalization policies are not going to change until the entire superstructure of global governance is altered. In asserting that governments of developing countries must strive harder to manage profits, integration and distribution in order to increase domestic investment and growth, UNCTAD (1997) challenged the laissez-faire version of the liberalization, which emphasizes a state with little or no affiance in the economy, and recommends a trickle-down approach to growth and distribution. Moreover, it took a more realistic view of the potential for global reform in the current system, a system which is presumed to predominantly meet the needs and objectives of the industrial countries. UNDESA report (2001) give central role to the 'market access for the poorest countries' as "*a route out of poverty*" and therefore calls the industrial countries to take the necessary measures for eliminating protectionism, and international institutions for providing increased protection for countries vulnerable to price fluctuations.

Wide income and asset inequalities among countries require action on many fronts. Rich countries could start by stopping themselves to do detrimental actions e.g. unfairly restricting migration, denying firms from developing nations the access to the knowledge and technology etc. Although some progress has been made on allocation and effectiveness of debt and aid, however, there is real reluctance to make trade fair for developing countries. While debt and aid are politically straightforward, whereas trade reforms in favor of poor takes real political courage, which is not ample as reflected from Doha Round. The failures of Washington Consensus policies across large population of the developing world have led to a 'crisis of trust' in the IMF and the World Bank. At the very least, this crisis should loosen the economic straitjacket on the governments of developing countries, allowing them to follow a more heterodox approach to growth and development. The 'same destination, different speeds' of the liberalizers is becoming a more historically literate 'same destination, different paths' (Green, 2008).

With the collapse of East European Communism, it is established that there must be a balance between equality and equity. If society chooses a centrist strategy, there are a variety of methods to ensure maximization of the benefits of both equity and equality. Governments can control economic levers; for example increase or decrease the minimum wage, taxes for income or consumption. Certain regulatory levers can also be employed to smooth wide inequalities. Societies can also balance equity with equality through strong democratic processes. However, the theory of institutions separates the form of institutions from the content of institutions, showing that a given institutional form, such as democracy or market-economy institutions, does not guarantee that the actual content will correspond to the apparent form. For instance, market institutions may be driven by social norms (i.e. content) stemming from "traditional" institutions (kinship, caste hierarchies). Similarly, institutions that are democratic in form may in fact be driven by authoritarian political mechanisms. Moreover, many other political and social factors interfere with the channels of economic causality. Multiple causes may be entangled in unique local contexts, thereby suggesting the abolition of "one-size-fits-all" approach.

In order to grow out of poverty, assets of the poor are to be built through investment in education, health and redistribution of other assets. It is not only equitable but also improves growth and future poverty. However, this policy can be contentious because on one hand, allocation of resources for education and health of poor would impose opportunity cost on upper and middle class and on the other hand, the redistribution of fixed assets such as land is very complex, politicized and multi-faceted. Moreover, it is also established that income inequality is growing and it needs to be restricted for growth and development. Therefore, redistributive policies through taxes and subsidies biased in favor of poor are recommended to be carried on a continuous basis. Due to mixed opinions on this notch, the measures used would have to be compatible with keeping incentives for growth and with the notion of "sound macroeconomic fundamentals" in fiscal policy.

The significance of political institutions and their power must be recognized and tackled meticulously. As argued by World Bank, the way to 'break the power and inequality vicious circle' is to recognize that '*societies prosperous today are so because they have developed more egalitarian distributions of political power, while poor societies often suffer from unbalanced distributions'* (WDR 2006, P.108). Therefore, the first thing that must be redistributed, before incomes and assets, is power.

CONCLUSION

The causal relationships work in several directions and involve intermediate causes when equity, equality and poverty are taken into account in the scenario of economic globalization. In such situation, the content of institutions matters more than their form, as does the way national and international institutions are combined in a given society. The same philosophy has to be applied on "equity vs. equality" dilemma; principal concern should be on the progress in achieving fundamental social and economic objectives, including the reduction of inequality, not on whether the policies adopted strictly adhere to preconceived notions of 'what is ideal idol of justice?'.

BIBLIOGRAPHY

Acemoglu D., (2008), “Oligarchic vs. Democratic Societies”, Journal of the European Economic Association, March, 6(1), P.1–44

Acemoglu D., Johnson S. and Robinson, J.A. (2005). “Institutions as the Fundamental Cause of Long-Run Growth”, in Aghion, P. and Durlauf, S. (eds.) Handbook of Economic Growth, vol. 1, Ch. 6, Amsterdam: North Holland

Alesina, Alberto and Perotti, Roberto (1994), "The Political Economy of Budget Deficits," *NBER Working Paper No. 4637*, National Bureau of Economic Research

Berry, Albert (2002), “Globalization, Liberalization, and Inequality: An Analysis with Focus on Data Problems.” Paper presented to *UNRISD Conference on Improving Knowledge on Social Development in International Organizations*, Geneva

Bouguignon F., Ferreira F. and Walton M., (2007), “Efficiency, Equity and inequality traps: a research agenda”, *Journal of economic inequality*, Vol. 5, P.235-256

Bourguignon F., Ferreira F. and Menendez M. (2003), “Inequality of Outcomes and Inequality of Opportunities in Brazil”, *Policy Research Working Paper No. 3174*, World Bank

Bowles S., (2004), “Institutional Poverty Traps”, chapter no. 5 in Bowles S., Durlauf S.N. and Hoff K. (eds.), Poverty Traps, Princeton University Press

Cogneau, Denis and Naudet, Jean-David (2007), "Who Deserves Aid? Equality of Opportunity, International Aid, and Poverty Reduction," *World Development*, Elsevier, vol. 35(1), p. 104-120

Collier P. and D. Dollar (2002), “Aid Allocation and Poverty Reduction”, *European Economic Review*, 45, 1470-1500

Cornia, G. and J. Court (2001). “Inequality, Growth and Poverty in the Era of Liberalization and Globalization”, *UNDP Policy Brief No.4*

Culpeper, Roy (2005), “Approaches to Globalization and Inequality within the International System”, *UNRISD overarching concern Paper No. 6 (Oct)*, United Nations Research for International Social Development

Dollar, David and Aart Kraay (2003), “Institutions, Trade and Growth”, *Journal of Monetary Economics*, vol. 50 (1), P. 133-162

Duclos, Jean-Yves (2006), “Equity and Equality”, *Canadian Journal of Economics*, November, P. 1073-1104

Easaw, Joshy and Savoia, Antonio (2009), “Inequality in developing economies: The role of institutions development”, *ECINEQ Working paper No. 2009-121*

Furman, Jason and Stiglitz, Joseph E. (1998), "Economic consequences of income inequality," *Proceedings, Federal Reserve Bank of Kansas City*, p. 221-263

Gächter, Simon and Riedl, Arno (2005), “Moral Property Rights in Bargaining with Infeasible Claims,” *Management Science, Vol.* 51(2), P. 249-263

Green, Duncan (2008), “Equality, inequality and equity: where do these fit in the poverty agenda?” *Oxfam Background Paper,* Oxfam International

Konow, James; Saijo, Tatsuyoshi and Akai, Saijo (2008), "Morals and Mores: Experimental Evidence on Equity and Equality”, *Levine's Working Paper Archive 122247000000002055,* David K. Levine

Lemieux, Thomas, MacLeod, W. Bentley, and Parent, Daniel (2009), "Performance Pay and Wage Inequality" *Quarterly Journal of Economics* 124(1), P. 1-49

North, Douglass C. (1994), "Institutions Matter," *Economic History, Econ WPA No. 9411004*

Osberg, Lars (1995), "The Equity/Efficiency Trade-off in Retrospect," *Canadian Business Economics*, Vol. 3 (3) spring, p. 5-19

Pritchett, Lant (1997, “Divergence, big time*”, Journal of economic perspectives*, Vol. 2(3), P. 3-17

Ravallion, Martin (1997), "Can high-inequality developing countries escape absolute poverty?", *Policy Research Working Paper No. 1775*, The World Bank

Rawls, John (1971), “A Theory of justice”, Cambridge: MA, Harvard University press

Reich, Robert (1997), “The Menace to Prosperity,” *Financial Times,* March 3

Robinson J.A., (2001), “Where Does Inequality Come From? Ideas and Implications for Latin America”, *OECD Development Centre Working Paper No.188*

Rodrik, Dani (2007), "Introduction to One Economics, Many Recipes: Globalization, Institutions, and Economic Growth," Princeton University Press

Rodrik, Dani (2001), "The global governance of trade as if development really mattered”, *UNDP background paper*

Rodrik, Dani (1998), “Where Did All the Growth Go? External Shocks, Social Conflict and Growth Collapses”, *Journal of Economic Growth*, vol. 4 (4) December, p. 385-412

Rosenstein-Rodan, Paul N. (1943), “Problems of Industrialization of Eastern and South-Eastern Europe”, *Economic Journal*, vol. 53 (Jun-Sep), P. 202-211

Scully, Gerald W., (2002), “Economic freedom, government policy and trade-off between equity and economic growth”, *Public Choice*, Vol. 113 (1/2) Oct, P. 77-96

Sen, Amartya (1999), “*Economic Policy and Equity: an Overview*”, in Vito Tanzi, Ke-Young Chu and Sanjeev Gupta, eds., Economic Policy and Equity, Washington, D.C., International Monetary Fun

Sen, Amartya (1999), Development as freedom, New York, Knopf

Sen, Amartya (1973), On economic inequality, Oxford University press, Sindzingre, Alice (2005), "Explaining Threshold Effects of Globalization on Poverty: an Institutional Perspective", *UNU-WIDER Research Paper no. 2005/53*, World Institute for Development Economic Research

Steel, Piers and Peloza, John (2006), "Hitting the sweet spot: Balancing equity and equality to maximize wealth and happiness", *IAPR Technical paper No. TP-06005*, Institute for Advanced Policy Research

Tanzi, Vito and Ke-young Chu (1998), Income Distribution and High-Quality Growth, eds., Cambridge, Massachusetts: MIT Press

UN Conference on Trade and Development (UNCTAD), 1997, Trade and Development Report

UN Department of economics and social affairs (UNDESA), 2001, World Economic and Social Survey

UN Development Program (UNDP), 1999, Human Development Report

Van der Hoeven, Rolph (2000), "Poverty and structural adjustment: some remarks on tradeoffs between equity and growth", *ILO Employment paper No. 2000/4*, International Labour Office

Van der Hoeven, Rolph (1995), "Structural Adjustment, Poverty and Macro Economic Policy" in Rodgers, G. and van der Hoeven, R., 1995

World Bank (WB), 2006, World Development Report (WDR): "Equity and Development"

World Bank (WB), 2001, World Development Report (WDR): "Attacking Poverty"