CHAPTER 3

The Global Divide

Inequality Across Societies

Worlds Coming Apart and Coming Together

The explosion rocked the entire city. Stunned onlookers watched the crumbling walls and then turned to run, covering their faces as great billows of smoke rushed outward and threatened to engulf them. As the smoke cleared, the onlookers turned back to witness a scene of complete destruction. Some wept. Others cheered. This was an act of neither war nor terrorism; these were the tremors of economic change. The Uniroyal plant in the small city next to mine had come down in a great planned “implosion.” This riverside site had once been home to the Ball Band factory. Only the most senior readers will remember Ball Bands, but they were one of the first prized athletic shoes in the United States—the Nike Air Jordans of their day. In time, Ball Bands gave way to new national competition, and then the market for domestically produced athletic shoes almost disappeared as competitors such as Nike dominated the market with shoes made in East Asia and aggressively marketed to American urban youth, whose fashion tastes have in turn influenced much of the world’s urban youth culture. Ball Band was bought out by the national giant Uniroyal, which manufactured various products made of synthetic rubber and plastic at the site. One by one, these operations were transferred overseas, where light products needing inexpensive resources but high labor demands could be made much more cheaply. “I’m sorry to see it go; it’s the end of an era for this city,” said one onlooker. “I think it’s a good thing,” offered another. “It’s the beginning of new development.”

The city is Mishawaka, Indiana, better known as one of the “homes” of The Late Show With David Letterman than as an industrial giant. It is a small city, population approximately 50,000, one of several such cities that are strung out like beads (I hesitate to claim “pearls”) along the St. Joseph River as it winds along the border between Indiana and Michigan before emptying into Lake Michigan. On the lake, a few old tankers still head for U.S. Steel in Gary, and brand-new French and German cruise
ships take passengers from northern Michigan to the new attractions of waterfront Chicago. The ships don’t venture upstream, but if they did, passengers would glimpse the social and economic changes taking place in the American heartland.

First port of call is Benton Harbor–St. Joseph, Michigan, twin cities divided by the river. They are far from identical twins, however: St. Joseph is almost entirely white, and Benton Harbor is largely black. This is not an accident of geography, of course. When black workers began coming to work in the growing industrial region of western Michigan early in the 20th century, they were not welcome in St. Joseph, so the black population became concentrated in the cheaper, less desirable areas across the river. Segregation remains so severe that many white residents in St. Joseph have never been to Benton Harbor, and some black residents in Benton Harbor have never crossed the bridge into St. Joseph. Alex Kotlowitz describes this amazing divide of two small communities in his book *The Other Side of the River* (1998). Benton Harbor has a national distinction: It was named the single-parent capital of the nation with 8 out of 10 children born to single mothers. Three quarters of Benton Harbor residents are poor. When industry left the area, so did options for the people who live in Benton Harbor, especially black men. They are not welcome in the upscale residential and tourist community and economy of St. Joseph. Even those who can find employment in the restaurants and stores that line Interstate Highway 94 as it curls around the city don’t earn enough to support families. Seeking higher wages means leaving the community, and many have been left behind.

Continuing upstream, small Michigan cities surrounded by orchards boast new industrial parks built with the help of state-sponsored tax abatements to try to lure industry north from Indiana. Further upstream and crossing into Indiana, the city of South Bend does not have much industry left to lose. It experienced the “rust belt” phenomenon early, when automaker Studebaker closed its large plant. Other heavy industry soon followed, leaving a corridor of hollow shells of dirty brick buildings unsuited to modern global industry. The city has made its own comeback: a new sports stadium, a new College Football Hall of Fame, a new industrial park on the outskirts of town, and new jobs in a growing service sector supported by regional hospitals as well as regional and national universities. Low-skill, minimal-credential employment is dominated by low-level service jobs, as indicated by vacancies for nurse’s aides in hospitals, custodians in office buildings, and clerks in liquor stores and gas stations. The only new construction downtown represents a divided city: new hotel and condominium complexes to serve visitors and alumni of the University of Notre Dame on one side and additions to the Center for the Homeless and a new Salvation Army center on the other. Many low-income whites live in South Bend, but the neighborhoods that once housed predominantly Polish American industrial workers are increasingly Hispanic, sharing the space with a large African American population. All large retail has left the city and is now overwhelmingly concentrated along a “miracle mile” strip of big-box chain retailers that ends in a regional shopping mall outside the city limits.

Farther upstream, the city leaders in Mishawaka hope that the vacant land on which the Uniroyal plant stood will attract new development downtown. Jobs are now dispersed, and no public transportation reaches across the entire metropolitan
Further upstream still is the city of Elkhart, which has received multiple visits from President Obama. It once had one of the lowest unemployment rates in the nation, thanks to a booming recreational vehicle (RV) industry. When the RV industry collapsed amid high gasoline prices and the national recession, the unemployment rate more than tripled to over 17%. The city that had attracted workers from around the country became so associated with economic crisis that President Obama first announced his relief and recovery package from this city and then returned to announce new transportation initiatives from the grounds of a struggling RV plant. Workers who had come to Elkhart from all over the country, including many Latinos, continue to leave. Longtime residents who have nowhere to go continue to struggle.

This tale of a string of cities is neither about perpetual decline nor about a chain of prosperity, although both have been claimed. It is, as Dickens wrote, the best of times and the worst of times, and it just matters who, and where, you are. White, black, and Latino workers in this area may have little in common, but their children have found common ground—shoes. They all wear popular brands of athletic shoes, none of which are made in the United States. Searching out the source of all those shoes takes us to another river valley, quite different from the first.

Athletic shoes are now made in export zones outside of Jakarta, Indonesia, and Penang, Malaysia, and increasingly in the great export-oriented zones of China. The largest of these zones centers on Hong Kong, the world’s most crowded and maybe most bustling city, which thrived as a British treaty port and colony and is now again part of China. Hong Kong shares the mouth of the Pearl River with Guangzhou, the city Westerners know best as Canton. This was China’s window on foreign trade for centuries and is again the center of China’s trade policies. Hong Kong and Guangzhou are the anchors of a valley of a dozen cities, at least half of which have populations of more than a million, dedicated to growth through export manufacturing. Shenzhen, right between these anchors, has boomed from a tiny river town to a city of several million in a matter of a few years. From shoes to toys, almost anything that is light and transportable—especially if it is made of molded plastic, glued nylon, and rubber and easily shipped—is manufactured in China, often in this valley.

The Pearl River delta supplies the entire world with Barbie dolls and Mickey Mouse. Some 80,000 Hong Kong–related enterprises have factories in the area, and 1,800 other Chinese companies have come here, along with thousands of Taiwanese, Japanese, U.S., and European firms (Edwards, 1997). High-rise office buildings gleam throughout the night in all these cities, in Hong Kong complete with a laser light show, as the manufacturing companies try to manage it all. More and more look-alike concrete high-rise apartments crowd shoulder to shoulder to house all the workers needed. Potential workers must seek permits to come here, and coils of razor wire and vigilant police keep out those who don’t have permits. Huge new shopping malls and amusement parks cater to the new middle class, but most Chinese who come here are seeking work. Young women wearing paper masks stand closely side-by-side, gluing soles on Reeboks. Increasingly, men are trying to find work here as well, to escape the rural poverty of neighboring regions.
Fu came to the Pearl River cities from rural China in hopes of finding better wages in industrial employment. He went to work molding bits of red and white plastic into jolly Santa Claus faces for export. Fu was glad to have steady work, but he was anything but jolly. He had to turn out box after box of plastic Santas, working at breakneck speed with a stamping machine that frequently malfunctioned because it was old and poorly maintained. His bosses ignored his complaints about the faulty machine. One day, as he reached to scoop another Santa out of the machine and into a box, the machine press came down on his arm and severed his hand. Fu’s recovery was slow and painful, and he could no longer work in any of the factories where the work required speed and dexterity. His employer, a Taiwanese industrialist with offices in Hong Kong, offered him a small “severance package” (severance taking on a new meaning in this case). Fu refused the offer and turned to Jo, an attorney who specializes in worker injuries. Jo assured Fu that the loss of his hand, which was clearly caused by company negligence, was worth much more than the small settlement the employer had offered. When Fu returned to the factory and confronted the employer, the man had Fu locked in a room where he was told he would stay until he agreed to drop his case. Jo, well acquainted with the intimidation that employers often apply in such cases, went to the factory with some local police officers and secured Fu’s release. Fu sued and won several times the original offer. Although this was still a tiny amount compared with the awards in U.S. litigation cases, it was enough for Fu to return to school and study for an occupation that uses mental rather than manual dexterity. He dreamed of becoming a lawyer.

Increasingly, however, workers like Fu and even lawyers like Jo must be careful how they press their cases. Taiwanese firms continue to manufacture plastic products in the Pearl River delta, but they no longer make blue jeans there. They have moved that work to Nicaragua. The country where Sandinista revolutionaries once battled U.S.-backed Contras is now home to a large “free zone.” Some 25,000 workers, mostly young women, now work in factories in Nicaragua for wages of about 70 cents an hour, half the rate paid for such jobs in Mexico. Nicaraguans, emboldened by the Sandinista years, are used to fighting for their rights, but they have gotten little help from the government in organizing unions. Some say it is because the factory workers already earn as much as nurses and police officers in poverty-stricken Nicaragua. Others wonder about the beautiful new buildings glistening in Managua, the country’s capital, buildings for the Nicaraguan government financed by Taiwan. Was this a gesture of friendship or an act of manipulation? Taiwan built Costa Rica a beautiful suspension bridge named the Friendship of Taiwan Bridge as a gesture of long-standing ties. But Costa Rica recently switched its primary economic ties to China, which has built the country an enormous sports stadium.

Growth of multinationals in Costa Rica has been slow, however, as Costa Ricans demand higher wages and benefits not received in Nicaragua or Honduras.

These cases are just some of many that could be told about the effects of our globalizing economy on workers, industries, and urban regions. I have chosen these cases particularly because of the complexities and ambiguities they raise. Many observers have provided accounts of the effects of deindustrialization in the United
States. In his 1989 film *Roger & Me*, for example, Michael Moore provides a captivating account of the utter devastation of the economy of Flint, Michigan, along with the lives of many workers, caused by the massive closings of General Motors plants, a process that continues. But what of Ball Band/Uniroyal? If you had been standing on that Riverside when the building imploded, after you wiped the soot from your eyes, would you have wept or cheered? Is this a tragic loss for the community or a new beginning? Has the city lost its economic base or merely traded ugly buildings and hot sweaty jobs for new opportunities and better jobs?

The Chinese situation has similar ambiguities. Is the economic boom in the Pearl River valley the driving force behind a new, prosperous, modern China or the latest page in a history that includes 5 centuries of exploitation of Chinese workers by foreign interests? Certainly the irony, and ultimately the tragedy, of Fu’s risking his body to turn out ever-more trivial trinkets says little about the ability of global capitalism to advance balanced development and human priorities. Many have written forcefully about the abusive conditions in international sweatshops (see Ehrenreich & Fuentes, 1981; Peña, 1997), yet Fu was eager to leave the poverty of the countryside for urban opportunity. The treatment Fu received from his employer was deplorable, but this is not just a simple story about foreign exploiters and national police states. Jo notes that in his labor rights work, he often finds that the plants with the best safety records are the largest operations controlled by U.S. and Japanese multinationals. Often, the worst abuses occur in plants owned by Taiwanese and Hong Kong partnerships that subcontract to larger firms. This is true elsewhere as well: Often, the greatest human rights abuses perpetrated in Southeast and South Asia occur in operations controlled by local employers or regional intermediaries, who frequently employ young women, and even children, at the lowest possible wages to work under the worst conditions as the employers seek competitive advantage. The workers’ ability to seek legal recourse is also interesting. China is frequently noted for its repression of civil and human rights, and some observers offer this repression as a reason the United States should cease trade relations with China. Certainly, Fu was horribly mistreated by a controlling employer, but note that he was able to hire an attorney, get police protection, sue in court, and win a settlement. China, in fact, has quite good labor protection laws on the books; these laws are often not aggressively enforced, however, especially in smaller plants, unless lawyers like Jo can prepare and advance the workers’ cases.

Is Fu’s story one of progress or betrayal? Is it about worker oppression or democratic progress? Perhaps the same questions could be asked about the Nicaraguan and U.S. examples. As enterprises become ever-more linked around the world, are we witnessing a chain of prosperity or a race to the bottom?

Those who take the former view see a chain reaction that, in time, will bring modernity and prosperity to ever-greater numbers of people. After World War II, the United States was victorious and embarking on a period of prosperity. Japan, in contrast, was defeated and falling into hard economic times. Japan’s response was first to become a manufacturer of less expensive consumer goods using the relatively cheap labor available. It then became a “middleman” for the production and export of such goods, and eventually Japanese firms gained full corporate control.
over the goods’ production. As Japanese wages rose, the production shifted to new places with cheaper labor: South Korea, Hong Kong, Taiwan, and Singapore. These places became primary producers of inexpensive consumer goods, then intermediaries in transactions between new sources of cheap labor and the United States, Japan, and Europe, and now firms headquartered in these countries are controlling the trade. Singapore has experienced so much growth that it now has a higher gross national income per capita than Great Britain, its former colonial master (World Bank, 2009). Singapore also has a very high cost of living, a great deal of urban congestion, and problems with pollution. Labor-intensive production has again shifted, this time to Indonesia, Malaysia, and Thailand. In these places, entrepreneurs now hope to grow rich and maybe shift production onward: to Bangladesh, India, Pakistan, and locations in the Indian Ocean. The chain continues and alters everything in its wake. What about all those software engineers in India? Are they poised to lead South Asia into the postindustrial information age without ever fully entering the industrial age? When they look offshore for their production, where will they look—Africa? Can the chain continue? Will the next decades find Ugandan businesspeople in air-conditioned offices managing production by low-wage laborers in Congo? Can this go on until all nations are prosperous? Or is it all a great big pyramid scheme that must eventually end? A pyramid scheme works only as long as new people can be brought into the system, and, ultimately, the gains of the winners are paid for by the losses of the latecomers. Such a scheme produces a few big winners and ends with many more losers. Is this the real nature of the global chain of prosperity? Or will technological advances make this process obsolete? Will those plastic Santas ever be able to mix and mold themselves?

The other, less optimistic view of global work has been dubbed “the race to the bottom.” This can occur, and has occurred, even within large countries. For example, individual U.S. states often compete with one another to attract new, mobile industries, and states often “steal” companies from one another. When a state rewards a firm with big tax breaks for locating within its borders, the state gains new jobs but not additional tax revenue to support public institutions, such as schools. States also compete for firms by offering a “business-friendly” environment: low taxes, low wages, few unions, few labor or environmental regulations, and so forth. The danger is that in their efforts to keep jobs and attract new ones, states may be tempted to give away all the things that might help build a better quality of life for their residents. Workers may get jobs, but with minimal wages, benefits, and protections. States that refuse to play this game may simply lose businesses altogether. One way the United States can protect against this process is to enact national laws that set minimum standards for wages, environmental protection, and so forth.

This problem grows when the race goes international. Mobile firms can move from low-wage countries to countries where wages are even lower, from countries with few regulations to countries with no regulations at all. Firms may bypass nations with progressive policies altogether, and countries that are eager to grow will be tempted to offer more and more to gain the attention of multinational firms. Desperate countries, such as Nicaragua, may give away a great deal. Some may try
to attract firms by emphasizing the particular resources they have to offer. For example, Singapore (and, increasingly, Mexico) has promoted the availability of an educated and English-speaking workforce (ironically, as more countries improve their educational levels, this is becoming less of a selling point). Further, no international government exists to set minimum standards and prevent the race from truly reaching the bottom: workers laboring for bare subsistence pay with little or no protection, as Marx envisioned. Is this the world of work we will see in the coming decades?

The Double Divide

The world is getting smaller, but its inhabitants are not necessarily growing closer to one another. Compared with those in the past, the gulfs that divide people now are less likely to be geographic and more likely to be social and economic. In an excerpt from his book *The Global Soul*, frequent flyer Pico Iyer (2000) writes about this strange new world that is both united and divided:

I woke up one morning recently in sleepy never-never Laos (where the center of the capital is unpaved red dirt and a fountain without water) and went to a movie that same evening in the Westside Pavilion in Los Angeles, where a Korean at a croissanterie made an iced cappuccino for a young Japanese boy surrounded by the East Wind snack bar and Panda Express, Fajita Flats and the Hana Grill; two weeks later I woke up in placid, acupuncture-loving Santa Barbara and went to sleep that night in the broken heart of Manila, where children were piled up like rags on the pedestrian overpasses and girls scarcely in their teens combed, combed their long hair before lying down to sleep under sheets of cellophane on the central dividers of city streets. (p. 75)

The Gap Between Nations

Each year, the United Nations Development Programme issues its *Human Development Report*. These yearly reports reveal a mind-boggling gap between nations in income, wealth, and well-being. Past reports have tried to put global inequalities into perspective: the richest one fifth of the world's people consume 86% of all the world's goods and services, while the poorest one fifth consume just 1.3%. U.S. citizens alone spend $8 billion a year on cosmetics, $2 billion more than the estimated amount needed annually to provide basic education for everyone in the world. Not to be outdone in consumption, Europeans spend $11 billion a year on ice cream, $2 billion more than would be needed to provide clean water and safe sewers for the rest of the world's population (see, e.g., United Nations Development Programme, 1996, 2004, 2009).

The gap between nations is as great as that of the world's most unequal countries (United Nations Development Programme, 2014). The richest 5% of the world's people receive more than 100 times the income of the poorest 5%. In fact, the
richest 1% alone receive more income than the poorest half of the world’s people. Just 25 people, the 25 richest Americans, have a combined income almost as great as the combined income of 2 billion of the world’s poor.

Some observers have argued that scholars should use other measures in addition to income when measuring poverty and inequality (Sen, 1999). For example, some Arab states have been able to use oil wealth to increase overall national incomes, but these nations still tend to lag far behind in measures of well-being. To attempt to capture the overall level of well-being in diverse countries, the United Nations has developed and refined a Human Development Index (see Exhibit 3.1). The score is based on a composite of income, health, and education. The leading country has shifted over the years, but the top countries are always from northern Europe (especially the Nordic countries), North America (the United States and Canada), and Oceania (Australia and New Zealand). For the 2011 rankings, the United States showed major gains, but the first place went to Norway, long at or near the top of the list. The United States scores well on income and years of education, but less well on the health measure of life expectancy at birth. Norway excels in all three measures.

To measure income levels, the United Nations begins with a common measure, GDP per capita, one way to estimate average incomes. This is the total of all goods and services produced and provided within a country’s borders, divided by its population. The United Nations then adjusts this figure to account for the cost of living in a country to create what they call “purchasing power parity.” Japan and Switzerland have some of the world’s highest per capita incomes, but are also very expensive places to live, so their gross domestic product (GDP) per capita is adjusted downward. Because very poor countries are typically also less expensive places to live, the gap in incomes would be even starker without this adjustment. The United Nations now also provides alternate models that consider the level of inequality within the country, for in many places huge gaps between rich and poor can make any average a deceptive measure.

Health is measured by life expectancy at birth. This is more easily obtained than a more subjective measure of well-being, but it is important to remember that it is an average and may reflect very different circumstances. In the most developed countries, this measure reflects lifestyle, diet, and health practices that extend longevity, with Japan achieving the longest expected life at 83.4 years. But the United States is hurt in this measure not just by less than healthy diet and lifestyle. The death of a child has a much bigger impact on lowering an average. With higher rates of infant and child deaths, from premature infants to young children dying of asthma, lack of preventive care in the United States, particularly to poor and non-white populations, lowers the average—likewise for the world’s poorest countries with very low life expectancy, such as 48 years for the Democratic Republic of the Congo. These societies do have elderly individuals, and the chance of dying at or near age 48 is not that high, but very high levels of infant and child mortality bring down the average. The one killer of younger adults that does affect life expectancy is the AIDS crisis of some southern African nations.

Education is a measure of years of education, not quality. Two measures are used: (1) the average years of schooling of the adult population, measuring current
**Exhibit 3.1** International Comparison in Income and Well-Being

<table>
<thead>
<tr>
<th>Country</th>
<th>Human Development Index Rank 2013</th>
<th>Life Expectancy at Birth 2013</th>
<th>Years of School 2012 Current/Projected</th>
<th>GDP Per Capita (Real Purchase Power) 2013</th>
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<td><strong>Very High Human Development</strong></td>
<td></td>
<td></td>
<td></td>
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<td>50.0</td>
<td>3.1</td>
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Source: Data from United Nations Development Programme (2014).
educational attainment, and (2) the projected measure of educational levels based on current enrollments of children. For example, India and Pakistan have very similar levels of adult educational achievement, with Pakistan slightly ahead. But India is doing much better at enrolling all children, boys and girls, for longer periods, so its projected levels will outstrip Pakistan.

The rankings can produce some surprises. South Korea and Hong Kong (a special administrative region of China that keeps its own vital statistics) are now ahead of France and the United Kingdom. Very different countries and economies, such as Saudi Arabia and Mexico, are right next to each other in the rankings. Saudi Arabia has higher average incomes, very unequally distributed, but Mexico currently has better statistics on health and education. Russia lags well behind both. Growing economies in China, India, and South Africa have moved these into the middle level of development. South Africa has three times the income of India, in fact, but tremendous inequalities and high rates of AIDS lower its life expectancy. The low human development countries include Haiti—the poorest country in the Americas and a country dealing with both natural disaster and political turmoil—and troubled parts of South Asia and Central Asia. But overwhelming the bottom of the list is a group of sub-Saharan African nations. The Democratic Republic of the Congo—resource-rich but torn by conflict, failed leadership, and a colonial history that together have devastated the population—sits on the bottom of the 2011 list with life expectancy at 58, adult educational attainment at 3.5 years, and an adjusted average income of $290.

There is some evidence that income inequality between countries is declining (Firebaugh, 2003). This is not true uniformly around the world, however. Incomes in sub-Saharan Africa have fallen absolutely, leaving much of Africa even further behind the rest of the world than in 1990. In 1820, Western Europe's per capita income was only about three times that of Africa; by 1992, it was more than 13 times that of Africa, and the gap continues to grow. The closing of the worldwide gap is entirely the result of gains in Asia and in two Asian countries in particular. Both China and India have seen dramatic growth in overall incomes, with the rate of growth greatest in China. Because these two countries alone account for one third of the planet's population, their growth has a big impact on overall figures. Big gains have also been seen in Singapore and in urban Thailand. The rural–urban gap also remains large, however. Most of the gains have been in large commercial cities; rural areas, especially in India, have lagged far behind. This highlights a common problem: Comparisons between countries may mean less than comparisons between groups and regions within countries. Cosmopolitan and high-tech Mumbai (formerly known as Bombay) may flourish along with Seattle, while the hill country of northern Uttar Pradesh languishes along with the hill country of eastern Kentucky.

The Gap Within Nations

The gap within nations is also staggering. Twice in the past several years, I've had the opportunity to teach with Semester at Sea (SAS), traveling around the world by ship with hundreds of college students and teaching sociology and global studies.
For me, it has been the perfect laboratory to teach about international inequalities. With 10 to 15 port visits around the world, the SAS experience is a wonderful way to see, in short order, the divides between countries and also within countries. On our last voyage, Ghana had the lowest average income, Japan the highest. But then there is South Africa. Docking in beautiful Cape Town feels a bit like somewhere in southern Europe or Southern California, both of which share its Mediterranean climate and beautiful mountains-meet-the-sea setting. A lovely waterfront boasts new malls and great restaurants. Lovely villas grace the bays of the waterfront. A day trip can include a visit to a winery, and we enjoyed performance and backstage tours with the opera director at Artworks. Lovely gardens await just outside of the city. But as one travels to those gardens or rides out past the airport toward the wineries, there are those townships: Ramshackle collections of buildings cluster on barren windswept plains. On our first visit I wrote,

As we drive out of town and past the airport, the country within a country continues. The highways are the best we have been on since leaving the United States. They aren’t lined with the scruffy auto repair and used parts shops that seem to be so much of life on the road in Latin America. Here we get strip malls and minimarts. The BP station where we pause is new, the bakery fresh, the coffee is good. At the same time, the view on each side of the road changes with every turn. Closer in are beautiful houses: the colors and frilled peaks of British colonial Victorians and the rounded curved fronts of the Dutch Cape style. On the other side are the newest and most ramshackle shanties. Nothing we saw in Latin America looked this unsubstantial. Ragged pieces of corrugated metal perch precariously on frames of scrap wood, cardboard, and scavenged car parts. A line of communal outhouses stand shoulder to shoulder along the road with their back sides toward us in a communal mass mooning of the highway, effluent running out and into a drainage ditch.

The townships were created by an apartheid-era effort to move black South Africans out of Cape Town but keep them close enough to come in and do the less desirable work. More than 20 years after the dismantling of apartheid, they remain. The ANC (African National Congress) government promotes housing and health care, but the divides are still stark. South Africa is one of the world’s most unequal countries.

Like South Africa, the world’s most unequal countries are now resource-rich African states: Sierra Leone with what became infamous as “blood diamonds,” and Equatorial Guinea, rich in oil while most live on less than $1 a day. Some of the other countries with the greatest internal inequalities are in Latin America; in Central America, where a handful of families control most of the wealth as well as the government; and in Brazil, where the fabulous star- and diamond-studded beaches of Rio de Janeiro bask in the sun just out of the shadow of towering slums that climb the steep and dramatic hillsides. These nations have the largest gaps between rich and poor in the world, but they are not alone in having wide and widening gaps. Under socialist governments, Eastern Europe had some of the
PART I: ROOTS OF INEQUALITY

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modern world’s most equal, although not always thriving, societies. Since the fall of communism, inequality has grown dramatically within Eastern European nations. Russia, with great resources and newly wealthy entrepreneurs alongside massive unemployment and wages below those paid in much of India, now has a greater gap between rich and poor than does the United States (see Exhibit 3.2). During the past couple of decades, the United States itself gained the unexpected distinction of being the most unequal society in the advanced industrial world. Whether inequality is determined by the share of national wealth held by the top few (the richest 1% control more than 40% of U.S. wealth) or by the size of the gap between the richest one fifth and the poorest one fifth of the population, the United States is number one in inequality among wealthy advanced industrial nations.

Increasingly, it is perhaps more revealing to look at clusters of wealth—whether they be in nations, cities, multinational corporations, or wealthy individuals—than to compare nation to nation. Two cities—Singapore, independent for only a few decades, and Hong Kong, now returned to China—found themselves at the center of an exploding Asian export market and now have average incomes higher than those found in most of Europe (World Bank, 2009). Exxon (United States), Royal Dutch Shell (Netherlands), or Toyota (Japan) alone has more economic clout than

Exhibit 3.2 Inequality in Selected Countries

Source: Data from United Nations Development Programme (2004).
the entire economies of Poland or the Philippines or the 130 million people of Pakistan. Despite a great expansion in the numbers of small holders in the world's stock markets, most corporate assets are held by a handful of individuals. The assets of the three richest people in the world exceed the combined gross domestic products of the 48 least developed countries. The assets of the world's 225 richest people (a group that includes 60 Americans) total more than $1 trillion, equal to the combined annual income of almost half the world's population.

What does it mean to live in a world in which the cost ($40 billion, according to always-controversial U.N. estimates) of providing basic education and health care as well as adequate food and clean water for every single person is less than 4% of the combined wealth of these 225 individuals, less in fact than the estimated wealth of one person—Bill Gates and his $67 billion of Microsoft assets? How can we make sense of a world in which the United States long claimed it could not or should not pay the $1 billion it owed to the United Nations, but one person, Ted Turner, with his cable television assets, could pledge a $1 billion donation to the United Nations based on the unexpected growth of his portfolio in a single season? To begin to do so, it helps to understand some of the forces reshaping the global economy.

The Global Debate

How do we account for the gross (in all senses of the word) disparities described in the previous section? Who's to blame for poverty? Theorists' key ideas concerning these questions started to crystallize at the end of World War II, although in many ways they merely continued the ancient debate reviewed in Chapter 1.

If we live in a “new world order,” it began not in 1989 with the fall of the Berlin Wall, but in 1944 with the imminent fall of Berlin. The “modern world” of geopolitics began at Potsdam, where three men tried to fashion an idea of what the world would look like in the wake of world war. One presided with an iron fist over what was then the world’s only Marxist state: Joseph Stalin of the Soviet Union. One presided with an iron will over the remnants of the British Empire, which he was determined to preserve: Winston Churchill. The man in the middle in the photographs, and in the debates, was Time magazine's statesman of the century, Franklin Roosevelt. Roosevelt argued against empires and spheres of influence and in favor of a world marked by “four freedoms”: nations with freely chosen governments living as “good neighbors” in a world of free trade and mutual prosperity. Some thought that Roosevelt was too generous in meeting Stalin's demands, but everyone at Potsdam knew who would be the inevitable leader of this world: the one nation whose economy was energized rather than devastated by war, FDR's United States. By 1946, the Cold War was emerging, and few agreements involved the Soviet Union. But Roosevelt's vision was expanded at Bretton Woods, New Hampshire, as the “free world” created new institutions for global prosperity: the International Monetary Fund (IMF) and the World Bank, among others. At the same time, the old empires started to crumble. Gandhi brought India successfully to independence while France struggled to hold on to Algeria and Vietnam. One by one, countries...
across South Asia and all across Africa became independent. Perhaps the last great empire ended in 1991 with the breakup of the Soviet Union. Two great "superstates"—the United States and China—remained to face each other as potential rivals, yet they found themselves linked by trade in spite of political differences. The world of FDR had almost fully emerged, with one exception: Two thirds of that world was still not experiencing prosperity. What had happened?

Modernization

One answer to that question came from theorists whose work was rooted in functionalist ideas about inequality. Because one of their favorite themes was the transition from traditional society to modern society, these theorists became known as the modernization school. They never saw themselves as a single school of thought, but they did have some perspectives in common (see Weiner, 1966). Their answer: Blame traditionalism. Poverty is the basic primordial condition of humanity: Once all societies were poor. Poor societies stay poor because they cling to traditional and inefficient attitudes, technologies, and institutions. In contrast, in the "modern world," the rise of industrial capitalism brought modern attitudes, such as the drive to experiment and achieve; modern technologies, such as machinery and electronics; and modern institutions to manage all this, such as financial institutions, insurers, and stock markets. Given enough time, such modernization will occur everywhere. In a widely read "non-communist manifesto," Rostow (1960) argued that poor countries slowly proceed to build the basis for mature modern economies. Once the key foundations of modernity are in place, these countries “take off" toward prosperity and a modern, high-consumption consumer economy. Although this process will take time to work in the most traditional places, eventually global capitalism and its modern corporations will carry these modern ideas, technological innovations, and efficient institutions everywhere.

Dependency

Even as these ideas were first forming, a counterargument was emerging that was rooted in conflict notions about inequality. Because this counterargument stressed the problem of the dependency of poor nations on the whims and power of the rich, it came to be known as dependency theory. The first dependency theorists may have been Lenin and Bukharin, who adapted Marx’s ideas to the 20th century. Their answer to the question of poverty: Blame colonial imperialism. Worldwide industrial capitalism brings exploitation through unequal exchange and removal of surplus through profits, domination through subtle but powerful neocolonialism, and distortion through “disarticulated" economies that serve export needs but not the needs of local populations. Latin American thinkers were especially key in this emerging line of thought (Prebisch, 1950). Latin America remained poor, they contended, because it exported raw materials at low prices to serve the needs of global industry and then had to import finished goods at high prices. Andre Gunder Frank (1967), a European transplant to Latin America,
argued that poverty and deprivation are not humankind’s original state. Poor societies are made, not born. They are not undeveloped but rather underdeveloped as a result of capitalist penetration. Why have poor nations been unable to resist this exploitation? First, they have been dominated by the rich nations through the neocolonial practices that replaced old-style empires, including the debt dependency that came with the World Bank and IMF, the manipulations of so-called foreign aid, and the tremendous power of foreign multinationals to coerce and co-opt national governments into compliance. Further, their economies have become so distorted that they cannot function apart from the global capitalism that is controlled by the rich centers of power, the “metropolis.”

The two perspectives differed not only in their view of history but also in their view of the appropriate level at which to attack the problem (Jaffee, 1998). Modernizationists saw the problems as largely internal to poor nations (Bradshaw & Wallace, 1996), which would have to change their ways. Modernization theory, like functionalism, is still often termed the mainstream school of scholarship (Isbister, 1998), especially by those who attack its ideas. Yet by the 1970s, modernization theory, like functionalism, was falling out of favor. Today, many more articles attack the theory than extend it. Modernization theory has been criticized as ethnocentric, as biased toward the West, and as measuring the world by Western standards. Modernization theory seems to have been mortally wounded by these attacks, yet its ideas are far from buried (for an adaptation and test of modernization ideas, see Inglehart & Baker, 2000).

Neoliberalism

Just as modernization theory was in retreat in academic circles, many nations around the world were rediscovering the ideals of free trade and free markets. The intellectual basis for this approach comes from neoclassical economics. This approach is sometimes termed neoliberalism, from a time when conservatives supported royal monopolies and land-based economies and liberals favored free enterprise. In the United States, the former were largely driven out during the American Revolution, so the latter have held sway for 200 years. Thus, neoliberalism is the economic philosophy of American political conservatives (as well as many so-called moderates)—a use of terminology that adds to the confusion of many students trying to understand these concepts. This ideology was popularly dubbed “Reaganomics” in the 1980s and was also the driving policy of Margaret Thatcher and the Conservative Party in Britain at the same time. For the past several decades, neoliberalism, with its roots in the economics of Adam Smith, has been dominating the world. It has gained currency in India and became the prevailing approach in the same Latin American countries where most thinkers once championed dependency theory. On the international level, the IMF and the World Bank champion their own form of neoclassical economics through the ideals of structural adjustment. Structural adjustment is, in effect, housecleaning. It calls on nations to reduce government spending and bureaucracy, to encourage markets, to export, and to encourage entrepreneurship, as well as to entice foreign investment and foreign technology.
For economists within this “mainstream” school, the evils are paternalistic politics that favor cronyism, corruption, and bloated bureaucracies; command economies that don’t allow efficient supply-and-demand–driven markets; and fatalistic attitudes that result in unwillingness to risk entrepreneurial activity. In place of these evils, such economists still propose “modern” attitudes, institutions, and technology. Although this line of thinking originated in economics, neoliberals are not entirely oblivious to social problems (see, for example, World Bank, 2000). They sometimes also blame racial and ethnic divisions and “tribalism,” and some criticize “traditional” repression of women. Neoliberalism stresses the importance of individual rights to smooth-functioning economies, although it is often suspicious of group rights. For example, in the United States, political conservatives who champion this view favor “equal opportunity” but have intensified their attacks on affirmative action; in addition, they often oppose increases in the minimum wage, government programs for health and education, and other interference with the “free market.”

The policies prescribed by neoliberalism and advanced by the IMF have also been called the Washington consensus, emphasizing the U.S. role. But it is clearly becoming less of a world consensus. In Latin America, leaders advancing neoliberalism won very close victories in Mexico and Costa Rica over anti-free trade, anti-privatization opponents. In Venezuela, Bolivia, Honduras, and Chile, however, elections were won by opponents, sometimes fierce opponents of free-market globalization. On their first meeting, Hugo Chávez, the former president of Venezuela and until his death one of the most vocal leftist leaders in Latin America, famously gave newly elected U.S. President Obama a copy of Eduardo Galeano’s (1973/1997) attack on imperialism, free trade, and neocolonialism, Open Veins of Latin America: Five Centuries of the Pillage of a Continent. Meanwhile, the world economic crisis that seemed to be spiraling out of control in late 2008 caused many in Europe and elsewhere to question their allegiance to the Washington consensus. In the United States, Obama administration proposals for increased regulation of financial institutions, takeovers of failing automobile companies, and a public option in health care all marked a retreat from the staunch neoliberalism of the Reagan and both Bush administrations and even the more limited neoliberalism of the Clinton administration.

World Systems

In contrast to emphasizing the need for internal reform, dependency thinkers tended to stress external causes (Bradshaw & Wallace, 1996), particularly resisting external intervention: Get out of my house. This line of thought continues on in world systems theory, developed by Immanuel Wallerstein (1974). Wallerstein sees the “new world order” as 500 years old, beginning with the global capitalism of the emerging European powers. Since its beginnings, this modern world system has had three different core centers of power: the United Provinces (the Dutch capitalists who began this process), the United Kingdom and its various forms of empire, and now the United States and its global economic dominance. Around the core countries, which might now include other parts of Europe and maybe Japan, are scattered semiperipheral countries that serve as middlemen. This is the so-called
Second World of trading states, including some newly successful entities such as Taiwan. The periphery consists of the poorest states, which bear the brunt of the oppressive system. For Wallerstein and his followers, states in the periphery are likely to remain that way until the entire system of global capitalism is overturned or radically altered.

Scholars who have deep concerns about global capitalism's ability to meet the needs of the world's poor sometimes label their perspective political economy. Marx preferred to refer to himself as a political economist. The term stresses the interplay of power and politics with the world of the market and exchange. Those who hold geopolitical power can use the world economy to their advantage. Some political economists are neo-Marxist, stressing the ongoing struggle between capital and labor around the world and updating Marxist concepts to fit the 21st century. Those in the dependency–world systems tradition begin with Marx's critique of capitalism, but they believe that the complexities of the modern world system require a new formulation that pays greater attention to international forces.

Most sides in this continuing debate agree that the key actors in the modern world are the multinational corporations, transnational lending institutions, international media, and expanding global technology and trade. They disagree on the effects of these forces. In the neoliberal view, the success of Taiwan or Singapore shows that export economies and free trade bring prosperity. In the world systems view, the core nations allowed these countries into the semiperiphery to facilitate the expansion of capitalism into new peripheral markets (such as Indonesia and Bangladesh). In one view, the structural adjustments mandated by the IMF are good examples of long-overdue housecleaning. In the other, they are further examples of policies of external domination that hurt the poor.

Is there a way to resolve this new impasse in the ancient debate? Many scholars have begun to argue that both theories have ideological blinders. Neoliberals continue to argue that poor nations must pull themselves up by their own bootstraps (even if they have to borrow the boots), and world systems theorists often see very little that poor nations can do for themselves. What are the elements of a blended theory? A logical first step toward resolution is to look at both external and internal factors. Modernization and dependency may be viewed as processes that go hand in hand. Jeffrey Sachs (2005), a highly influential international economist at Columbia University, is deeply rooted in the classic economic tradition of neoliberalism, yet he argues passionately for developed countries to aid poor countries, especially the poorest places in Africa, with public investments in health and education to help them break out of hopeless cycles of poverty in order to be in a place to realistically implement free markets and entrepreneurship.

Globalization: The Ties That Bind

How is it possible to have a postindustrial economy in a society filled with industrial products? The answer lies in the phenomenon that has been termed globalization. Industrial products are manufactured in export zones of poor countries with
low wages and then quickly shipped to wealthier consumers around the world. The process is largely controlled from the old industrial core, where smokestacks have given way to cell phone towers and factory bricks have been replaced by electronic clicks, as a new service economy based on the financing, advertisement, distribution, and retailing of these products has come to dominate.

Not long ago, the word for our times was modern: Buildings, ideas, technology, fashion, and people were all—or should be—modern. Theorists and analysts of worldwide developments spoke and wrote about “modernization.” Today, everything from architecture to theory is dubbed postmodern, and modernization has disappeared from books and articles to be replaced by the new term globalization. Philip McMichael (2007) has labeled the period from 1945 to the mid-1970s as the “development project,” when modernization views of progress dominated the international scene. Since that time, he argues, we have embarked on the “globalization project,” when neoliberal free-market economics is the dominant philosophy and the favored alchemy for getting ahead. A word rarely heard before 1980, globalization is now in such common use that business and professional magazines feature lists of the top 20 books on the subject.

Certain people—the powerful, the greedy, the adventurous, and the curious—have always been interested in the world beyond their borders. Those with the means have sought to satisfy their curiosity and their longing for exotic luxuries by making contact with other cultures, establishing commerce with them, and controlling trade routes. Human history is the history of contact and exchange. So is globalization anything new? Yes.

Today’s global economy is unlike anything humankind has known before, if only in its pace and intensity. Container ships can move the products of an entire city across the world’s oceans without any individual handling of anything on board. Jumbo jets can move the equivalent of an entire village anywhere on the planet in a matter of hours. But the most important element in the rise of the global economy has been the electronics revolution. Satellite and cable carry news and ideas around the globe instantly and, through multiple media outlets, create demand for those shiploads of products, even among those who never leave home. Further, billions of dollars can be moved from one continent to another with the click of a mouse, making global control of commerce and finance easy and instantaneous.

What makes this electronically created global society such a powerful force is not just its speed but also its breadth. Global reach is no longer limited to the rich and powerful. Before I began to write this chapter, I went online and e-mailed a Mexican colleague in Europe and a U.S. colleague in Sri Lanka, sent a joke to a friend in China before she left for Germany and to an Australian friend who is teaching in Korea, read a French newspaper, moved some savings from a money market account in New York to my checking account in Indiana, checked the prospectus of a “socially and environmentally responsible” mutual fund that wants to invest some of my retirement income in Latin America and East Asia, and checked the weather over the Pacific for a student who was leaving for Malaysia. In a precarious world, global commerce can face new threats from terrorism, piracy, economic nationalism, high fuel costs, and global financial upheavals. But Twitter
and Facebook expand by the hour, part of a global electronic network that seems unstoppable. We may not be experiencing the “global village” that Marshall McLuhan (1964) spoke of, but we all seem to be sharing one big global cybercafé and trying to figure out how it all works and what it all means.

Anthony Giddens (2000), a British social scientist who, like others, has shifted from writing about the structures of modernization to writing about the structures of globalization, calls the pace and scope of these changes a “runaway world.” One of the fundamental questions of this runaway world is what it means for global inequalities, both those between nations and those within nations. The effects of globalization on inequality between nations have been complex and varied. In some ways, it has led to a growing sameness, especially in the world’s global cities. Whether one is in San Antonio, Texas, Nairobi, Kenya, or Kuala Lumpur, Malaysia, one sees new high-rise office buildings in the same styles and congested highways filled with a mix of the Mercedes-Benzes of the old rich, the BMWs of the new rich, the Hondas of the middle class, and, alongside, the carts and packs of the poor and the homeless. The proportions one finds in these categories, however, vary greatly. In general, the wealthy powers of the old economy have become the new nodes of commerce and control for the new economy. In many ways, the picture between nations in the global economy is much like the picture between people within nations: The rich have gotten richer; a few young, urban nations have made impressive gains; most of the poor have made few gains; and the poorest have lost absolutely.

The effects of globalization on inequality within nations have also been complex, but a pattern of growth with growing inequality seems to be emerging. This is partly a direct effect of changes in technology: Those who control and manage productive technology reap profits as a result of the greater productivity the technology affords. Workers, on the other hand, may lose their jobs to new technology or find that their skills are replaced or rendered redundant by automation, both mechanical and electronic. They are displaced or “deskilled” just as workers were in an earlier industrial era.

The new international division of labor that comes with globalization can also lead to expanded inequality, particularly within nations. Those who can control global markets and global production can garner a world of profits, benefiting from both the cheapest inputs of labor and resources and the largest markets afforded by the entire planet. In contrast, those whose skills are now replicated by workers around the world find themselves competing for jobs and wages with the entire planet. In this sense, the global capitalism of the 21st century has had effects similar to the national and international capitalism of the 19th century, but these effects have been greatly magnified. Spanning many different lands with many different laws and practices, they are also much more difficult to control.

These effects can be seen across the rich nations of the so-called First World and the poor nations of the Third World, and especially in the new players in this new world order (or disorder). India holds the Western imagination as the land where Mother Teresa ministered to the homeless, dying poor. Indeed, India has more beggars than any other nation in the world. But it also has more software engineers.
That’s right—more than Seattle, California’s Silicon Valley, Texas, Boston, and beyond in the United States combined. Many have left India in a great brain drain, making Indians the best-educated immigrant group in the United States. But many more can now “telecommute,” selling their skills to firms around the world. This means that even skilled, white-collar jobs can now be easily outsourced. When my home computer breaks, a toll-free telephone number puts me in touch with a polite and helpful person who will reveal only that he is in the SBC “global response center,” which presumably exists somewhere in transnational cyberspace. Yet despite careful training, every helpful staff member with whom I speak has an unmistakable South Asian accent.

A student mentions in passing that her husband’s small local firm is outsourcing the engineering for a new contract—to India, for rates around $12 an hour rather than the $50 to $70 an hour Americans would be paid for the same work. In this, no one is secure. An e-mail advertisement tells me that for much less than I would pay even work-study U.S. students, I can outsource interview transcription to India—send away audiotapes and have the transcripts delivered to me electronically. Publishers regularly outsource work on the different stages of book production. One of my first manuscripts was copyedited by an unemployed Hollywood scriptwriter. Often in the 1990s, American book publishers used printing companies located in Hong Kong. This book was copyedited by a freelance editor who lives in rural Nebraska in the United States and then computer typeset in the growing electronic hub of Chennai, India (the British formerly knew this as the textile trade center of Madras). Americans have gotten used to the tremendous numbers of products that are now produced in China and the impact of this phenomenon on the U.S. working class. A growing issue is the impact that a well-educated and low-paid labor force in India could have on job security for the U.S. middle class (Friedman, 2006).

The first country to move into white-collar outsourcing in a major way was Ireland. On the periphery of Europe, Ireland offered an English-speaking labor force that would work for low wages and had good technical infrastructure. Soon, many companies realized that it was cheaper to send electronic records across the Atlantic to Shannon or Dublin to be processed. Insurance companies led the way, but eventually even municipalities also tried cutting costs in this manner. Ireland has been quite successful with this, so successful that wages are rising there, and this option is no longer so appealing to potential outsourcing companies. The first move toward outsourcing white-collar work occurred at a time when data-processing jobs were so plentiful in the United States that most U.S. workers didn’t worry about the competition. Now, with the U.S. labor market again tight and a huge wage gap between the United States and India, white-collar outsourcing is back as a concern. And with technological advances, the possibilities for outsourcing continue to grow. With sophisticated, instant global communications, even something as personal and immediate as a medical exam can be partially outsourced.

Coming home after a late-night party, two college students have an auto accident and are rushed to a nearby emergency room for X-rays. Already waiting in line is someone who needs a chest X-ray to check for possible pneumonia. The
X-ray technician works through the night, but the radiologists, overworked from the growing numbers of complex diagnostic procedures they must perform, have all long since gone home to bed. They can rest easy. X-ray results are increasingly digitized rather than put on film, and digits can circle the globe at the speed of light. The results of the students’ X-rays and those of the other patient are sent electronically halfway around the world to Hyderabad, India, where it is the middle of the day, and an Indian physician reads the results and e-mails back a diagnosis. The next day, one of the hospital’s radiologists, an Indian immigrant himself, reads the e-mail and confirms the results. Such global exchanges are becoming increasingly common. They meet real needs, such as those caused by shortages of specialists, and take good advantage of time differences. Is it possible that U.S. radiologists, who are among the highest-paid medical specialists, will ever find their incomes challenged by cheap foreign competition? Might Indian radiologists find their incomes growing, moving them closer to their U.S. counterparts but further from most of their fellow Indians? The possibilities are complex and intriguing. Already, India is beginning to see the signs of a small return migration, in which the well-educated children of immigrants to Europe and the United States are returning to India, eager to both return to their roots and ride a rising economic tide for the well placed.

By some estimates, India already has a larger middle class than does the United States. How can that possibly be? The middle class in India has been growing for decades, and in a country of a billion people, even if only one fifth can claim this status (many more are poor), that is still 200 million people and growing. Sometime during the 21st century, India, with a population growth rate that is slowing but still higher than China’s, will be the world’s most populous country; it already holds more people than all of Africa. India was much slower than most of East Asia to enter fully into the global marketplace, but it has been increasing its role in the past few years, along with impressive growth rates. International comparisons show that India is no longer one of the world’s poorest nations; rather, it is a “middle-income” nation, with annual per capita income of $3,452, up from an average of only $1,422 in 1995. But that is an average of extremes, and not just extremes of very rich and very poor, as Americans often assume, but extremes of rich, middle, and poor. India has a handful of industrial and media moguls (an Indian word, in fact, for wealthy Muslim rulers), a highly educated professional and managerial middle class that is vulnerable to economic downturns but continues to grow into the hundreds of millions, and yet a mix of rural and urban poor that may top 600 million people. Some look at these numbers and see a great sea of miserable humanity, whereas others see a great pool of potential low-wage workers alongside an untapped pool of middle-class consumers. India in the 21st century will likely be all of these.

Mexico, which once had a highly protected economy like India’s, now has more trade agreements with other countries than any other nation, including the United States. For Mexico, the North American Free Trade Agreement (NAFTA) was only the beginning of a great embrace of free trade. Mexico’s economy has experienced a growth rate of between 4% and 5% since the passage of NAFTA—not phenomenal growth, but strong. It has moved from being the world’s 26th largest economy...
to the eighth largest. Yet almost all of Mexico’s post–NAFTA industrial growth has been in maquiladoras, export-processing plants that assemble goods from imported parts and then ship the goods back for sale by foreign-owned multinational corporations. Although employment has increased, real wages in industry during this time of growth have declined by as much as 20%. What happened? The pattern is by now familiar. A few spectacular successes, such as Mexico’s Cenex cement industry, have become global competitors, and several of the world’s richest people are Mexican. In 2007, Mexico’s telephone tycoon, Carlos Slim Helú, the son of Lebanese immigrants, stunned Forbes 400 watchers by temporarily surpassing Bill Gates and becoming the world’s richest man of the year with an estimated fortune of $73 billion.

Much more extensive in Mexico are foreign-owned firms such as Nissan, Ford, Volkswagen, and General Electric, which hire a handful of Mexican engineers and managers to help bolster an always-worried but nonetheless growing middle class that also includes a mix of professionals in medicine, education, law, and government. Workers in manufacturing, however, are less likely to have effective union protection and more likely to be poorly paid young women, most of whom are secondary school graduates but have few options other than equally low-paying clerical work. Beneath these are the truly poor: rural workers with declining incomes, who must now compete with cheap U.S. and South American agricultural products, and informal economy workers, who try to get by hawking, fixing, and reselling the many foreign-made products that fill the country (or trying to sell “pirated” versions of these products). These poor and informal economy workers may make up as much as 40% of the total Mexican workforce.

Has globalization finally brought Mexico both democracy and prosperity? Or does it merely offer new forms of economic exploitation, political domination, and social distortion? The answers to these questions matter enormously, not only to Mexico’s 100 million people but also to the billions of the world’s poor, both the desperate and the hopeful, who watch and wonder.

**Immigration: Seeking to Cross the Divide**

To an economist, the economics of immigration are quite simple: Given the big gaps in wages and demand for workers around the world, it makes sense for people to move from low-wage, low-demand areas to high-wage, high-demand areas. Yet many people in low-wage, low-demand areas are reluctant to leave their families, their homes, and their familiar cultures, and many high-wage, high-demand locations are reluctant to welcome newcomers. Immigration involves leaving one’s country of origin to live in another country. Labor migration is a temporary move in search of work, with the intention to return home. Kuwait has many guest workers in its oil fields. Such workers do not get Kuwaiti citizenship; rather, they work and then return to their original homes in Egypt, Jordan, the Philippines, or wherever. Germany has long had many Turkish guest workers; it was never assumed that they would become German citizens.
Exhibit 3.3 Immigration to the United States

The United States is a nation of immigrants. A few arrived some 10,000 or more years ago, but most others within the past 400 years, and many much more recently than that (see Exhibit 3.3). Yet at times, the United States has also sought labor migrants. The Chinese workers who were imported to help build railroads in the 1800s did not bring their families and were not expected to stay. They were to do the work they were needed to do and then go home. In the 1900s, Mexican workers were offered the same arrangement at various times. In recent years, political leaders as divergent as Senator John McCain, former senator Ted Kennedy, and President George W. Bush all proposed immigration reform, and until U.S. unemployment skyrocketed with economic crisis, many had called for a new U.S. option for guest workers.

Immigration, labor migration, and outsourcing are intertwined in a peculiar cost accounting of micro- and macroeconomics. Places with long-term labor needs may encourage immigration, especially from certain locations deemed culturally or ethnically desirable. Cyclical demands may lead to calls for temporary labor migration so people can be sent home when the work is done. Sometimes it is cheaper to move people, and sometimes it is cheaper to move products. For a long time in the United States, fine stitching on garments was done by immigrant labor in major cities, first by European immigrants and then by Asian and Latin American immigrants. This practice still persists in certain locations in New York and Los Angeles, where quick turnaround on orders is essential. For more routine sewing, it is now cheaper to have the work done in Asia or Latin America and to move the garments, rather than the garment workers, across borders. The largest of the U.S. guest worker programs for Mexicans ended as U.S. factories found it cheaper to move their operations over the border into Mexico than to bring Mexican workers into the United States. In agriculture, Mexican American migrant laborers in California must now compete with low-cost farm produce coming from northern Mexico. The irony is not lost on the struggling workers. In 1979, Ernestina Miranda left Mexico, slipping into the United States in the trunk of a car. In El Paso, she found a job sewing blue jeans, 6 days a week, 12 hours a day. But now the blue jean production has moved south—to Mexico. She is left working as a “temp”—a temporary worker—in a plastics plant, earning minimum wage with no benefits and no security. “My American dream has turned into a nightmare,” she said in her listing trailer home (LeDuff, 2004).

Others seem to have nightmares of criminals and drugs crossing the border and have demanded that the United States increase border enforcement and deportations of undocumented immigrants. Donald Trump gained early prominence in the 2016 presidential campaign by promising to build a wall along the border, quickly and at Mexican expense. Europe has likewise struggled with allowing large numbers to enter the EU from Africa and the Middle East. When people are fleeing the economic, environmental, and social devastation of conflict zones—whether that is drug and gang violence in Guatemala and Honduras leading to pressure on the U.S. border or war zones in Syria, Libya, and elsewhere leading to pressure on European countries—the distinction between a refugee fleeing violence and an “economic immigrant” can be difficult to determine. Advocates of more open doors cite the
plight of those fleeing violence, but advocates of stricter rules of entry worry about admitting perpetrators along with the victims. High unemployment rates compound the worries about incorporating new immigrants.

Despite continued and intense political controversies over immigration, illegal immigration to the United States has been decreasing, particularly from Mexico. This is partly due to large investments in border security. The biggest shift occurred, however, with the economic crisis of 2008, particularly its impact on the manufacturing sector. As jobs disappeared, many Mexican workers returned to Mexico; for a while, more were leaving than were coming. At the same time, a gradual easing of visa availability has meant ever-larger numbers of legal migration from Mexico: 517,000 temporary workers, 888,000 on business visas, and 30,000 as exchange visitors (Castañeda & Massey, 2012). The new circular pattern of coming and going returns to a labor migration that was familiar before the 1990s. Legal immigration has also grown, mostly by family members of immigrants. Castañeda and Massey call the changes “do-it-yourself” immigration reform since one of the changes has been carefully planned movement in response to economic and political changes by Mexicans themselves. The core remaining problem is how to best cope with the situation of 11.5 million workers remaining in the United States—60% from Mexico, who have no legal status. Popular opinion is strongly against anything that sounds like “amnesty.” Proposals such as the Dream Act have more support, in this case giving a path to legal status for those who come to the country as children, graduate high school, and continue on to college or the military. For many of these “dreamers,” the United States is the only country they have known, even though they remain as “illegals.” The Dream Act stalled in Congress, but in 2012, President Obama issued an executive order to halt deportations of these young people. In 2014, Obama expanded on this with a series of executive actions that deferred deportation for a wider range of children, as well as parents, spouses, and children of citizens and legal residents. The administration argued that enforcement should focus on criminals and problem immigrants and avoid breaking up families. The actions were criticized as executive overreach but defended by the administration as necessary until Congress took action on immigration reform.

The greatest demand now for guest labor, whether official or illegal, is in those service areas that are hard to outsource: gardening, housekeeping, and child care. Immigrants find work near the bottom of the wage scale as taxi drivers, kitchen workers, and health care aides and high on the wage scale as technical and medical professionals in high-demand areas. Much of the traditional industrial draw is no longer available. At this point, immigration into the United States and Western Europe continues to be strong, accounting for almost all of the growth in these areas. Yet as products and information move about the globe ever-more quickly, the main need for immigrants and labor migrants will likely be to fill the often low-wage sector of hands-on service. In Europe, and maybe eventually in Japan, an aging population may be dependent on this guest labor for personal and medical needs, and in the United States, professionals working long hours may also increasingly need the domestic services these workers provide.
The Market Paradox

Neoclassical economics appears quite correct about the power and appeal of the market. Yet political economists provide an important reminder that the market operates in conditions of unequal power. Just as well-connected individuals can command great returns on their efforts and excluded and marginal people must accept whatever they are offered, so it is also in the world of nations. World systems theorists note that great wealth does not automatically pour into places with great natural resources, such as Angola and the Democratic Republic of the Congo, two of the most resource-rich and income-poor countries in the world, but rather to the well-connected core cities of core countries: Tokyo, Zurich, London, Frankfurt, and New York.

The problem with markets is rooted in a great paradox: Markets work best under conditions of relative equality, but they inevitably tend to produce conditions of extreme inequality. Market solutions work best when everyone has relatively equal incomes. Food and housing, perhaps even health and education, can be “marketized” if everyone has sufficient income and information to make good choices, but these markets quickly break down when some can dominate the market while others have no say at all. The same is true for power. Markets work best in a highly competitive environment with many players of equal power all competing for that equally distributed income. From 18th-century Scottish political economist Adam Smith onward, market proponents have argued for competitive marketplaces over monopolies, whether private or public. Yet markets, at least unregulated markets, continually produce monopolies. From the British East India Company to Standard Oil to Enron and Microsoft, a few key, centrally placed players can use a combination of market power and political power to control the marketplace. The process is familiar to any player of Monopoly: The game begins as a competitive free-for-all, but early successes translate into growing dominance until one player controls it all and the others face inevitable bankruptcy.

This realization led Karl Marx to believe that a replacement for capitalist markets must be found. Some world systems theorists contend that, in a globalized world, this replacement can no longer be socialism at the national level; rather, it must be some form of democratic global socialism. Many others are still trying to find ways to tame and harness the market: breaking up international monopolies, encouraging local entrepreneurial alternatives, and strengthening the role of labor in the global labor market.

The debate is often politically polarized between conservative free-trade advocates and progressive antiglobalization protesters. Yet the strategy of supporting entrepreneurship and small business while limiting the power of monopolies has appealed to free-market advocates from Adam Smith, who wrote during a great wave of globalization in the late 1700s, to Theodore Roosevelt, who campaigned for U.S. president during a great wave of globalization in the early 1900s. And even those who advocate the eventual rejection of global capitalism concede that the need in the medium and short term is to find ways to turn the market toward the meeting of human need while controlling excess concentrations of wealth and power. This is the great challenge of the 21st-century world economy.
KEY POINTS

- The world faces a double divide: Income inequalities are increasing both between and within nations.
- Modernization theorists contend that low-income countries need modern ideas, technology, and institutions. Dependency theorists and world systems theorists contend that poor countries face exploitation, domination, and economic distortions because of their dependence on rich countries.
- The perspective variously known as neoliberalism, neoclassical economics, and free-market economics stresses the importance of free trade among nations and the need to reduce government interference in domestic markets.
- Political economists question the wisdom of trade liberalization in a world of vastly unequal power and access to resources.
- Globalization is radically altering the world economic system. Global interconnections are affording new opportunities to some. Global markets can increase global inequalities by increasing the revenues of large corporations while at the same time forcing wages down through increased labor competition.
- Continued wage gaps between nations have led to outsourcing, labor migration, and immigration. The most rapidly growing income inequalities are now those within nations between new elites and the excluded and marginalized classes.

FOR REVIEW AND DISCUSSION

1. What are major causes of the “double divide” between and among nations? What factors are emphasized by dependency and world systems theorists, by modernization theorists, and by neoclassical economists?

2. How has globalization changed economies and the lives of workers? Is it likely to lead to greater poverty or greater prosperity? What factors support your point of view?

MAKING CONNECTIONS

United Nations

Visit the websites of the United Nations (www.un.org) and the United Nations Development Programme (www.undp.org). The main U.N. site is “information central,” providing facts and statistics on a host of international issues. You can focus on a topic of interest, such as human rights or gender issues, if you like. The U.N. Development Programme collects a wide range of data on global well-being and economic development and publishes the annual Human Development Report. What are the key indicators of well-being? Where is progress being made? Where are we “losing ground”?
MAKING A DIFFERENCE

Join the Fight Against Extreme Poverty

One of the new high-visibility groups that are trying to focus international attention on the problems of extreme poverty calls itself ONE. Go to www.one.org to see the current priorities of this campaign. ONE has involved many high-profile celebrities from Bono to Brad Pitt and Angelina Jolie in its campaigns to change national policies and priorities. They invite political candidates from all parties to post videos answering questions on their approach to world poverty. If you find this group represents your convictions, you can sign their declaration, receive their e-mails, join their Facebook and MySpace sites, and stay in touch with antipoverty activists around the country and across the world. Click on the Partners tab to get a long listing of some of the most active antipoverty groups in the world, with links to their websites.

Fair Trade

Explore any “alternative traders” that operate in your community or a neighboring city. Alternative traders (sometimes called fair traders) attempt to provide alternatives to exploitative international trade relations. For example, they may purchase products directly from local producers in low-income countries and communities, often giving special attention to local cooperatives, to women’s and poor people’s groups, and to products that are produced in socially and environmentally responsible ways. The products such traders purchase include clothing, coffee, and crafts, which they often resell for little or no middleman profit so that a large portion of the retail price returns to the producers. Alternative traders with local outlets include Ten Thousand Villages (www.tenthousandvillages.com), SERRV International (www.serrv.org), Equal Exchange (www.equalexchange.com), and MarketPlace: Handiwork of India (www.marketplaceindia.org). Visit their websites for information on fair trade, and then check for locations or outlets near you. If possible, visit some alternative trade stores, look at the items (take your Christmas list if you like!), read the brochures, and talk with store personnel. How do alternative traders attempt to cope with the problems and inequality of the global economy? Is this a viable way to combat the destructive and exploitative aspects of world trade?
Photo Essay: Honduras
Catherine S. Alley

The strength of those who sustain themselves with subsistence farming and money sent from those family members working in Tegucigalpa several hours away is evident in the faces of the residents of the Agalta Valley of Honduras. Villages are tight-knit microcosms of families, who live near one another and help to support each other, assisting in projects, farming, and caring for children.

Living in the small town of Juticalpa affords these Honduran boys the luxury of attending school. Classrooms may be crowded and the supplies limited, but they are in fact among the privileged when compared with their more rural counterparts, who often live prohibitive distances away from the few schools.

Children help at home and with farming from an early age, and the youngest children can be found playing with whatever objects they can find. This little girl is playing with an ab roller—perhaps found in a box sent by a church in the United States.
A village might have one communal outhouse. During the rainy season, it is not uncommon to see the waste of chickens and dogs in muddy yards outside of villages.

Homes are adobe. Most floors consist of packed dirt; however, it is becoming a more common mission activity to provide cement for families to use for paving the floors of their homes.
Chapter 3: The Global Divide

Transportation for the majority of rural Hondurans is limited to their undersized horses and oxen, which are also used in farming. Running water essentially does not exist.

While visiting, “gringos” are warned not to consume any water; families wash clothes in the same rivers where they bathe and collect water to drink.