IMF Fuels Critics of Globalization

Report Finds Technology And Foreign Investment Boost Income Inequality

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WASHINGTON -- Technology and foreign investment are making income inequality worse around the world, the International Monetary Fund said in a new report, handing critics of globalization a powerful argument to use in their political battles.

The IMF's findings, published in the fund's semiannual economic review, the World Economic Outlook, confirm the work of other economists, who have been trying to figure out why income inequality has widened in both rich and poor countries in the past two decades. The report is an unusual admission by the IMF of the downsides of globalization.

Since at least the 1980s, the IMF has pressed countries to open their borders to foreign investment, technology and trade as a path to economic growth -- and has channeled loans to countries that took its advice.

An anti-IMF and antiglobalization backlash developed in many parts of the world, especially Latin America and Africa, when the economies that followed the fund's prescription didn't grow as rapidly as anticipated. Now, that antiglobalization movement, which has spread to the U.S., Europe and parts of Asia, has become a political barrier to further liberalization of trade, investment and the migration of workers.

Subir Lall, the IMF's deputy chief for research, said the report had no political agenda. He said it found that, overall, wealth increased through globalization. In the great majority of countries, the income of lower-income workers has risen in the past two decades, but at a slower pace than for higher-skilled workers. As a result, the gap between haves and have-nots has widened.

The policy lesson, Mr. Lall said, is the need for greater investment in education. "This would allow less-skilled and low-income groups to capitalize on the opportunities from" technology and globalization, the IMF report said.

According to economic theory, increased trade and investment should diminish income inequality in developing nations. The theory argued that as more low-skilled jobs moved -- from the U.S. to developing nations, for example -- demand for lower-income workers would increase in developing nations, as would their wages in comparison with higher-skilled workers there. Overall, the income gap would close.

The facts haven't borne that out. Since countries in Latin America, Asia and Eastern Europe began to liberalize their economies, the gap between rich and poor has widened. Political resentment has increased as a result.

Sub-Saharan Africa is an exception to the rule, the IMF said, though its report didn't address why the income gap there had diminished. Gordon Hanson, a trade economist at the University of California at San Diego who consulted with the IMF researchers, said the reason may be that the many African civil wars destroyed the wealthy classes. Income equality may have improved but not for reasons any other region would want to emulate, he said.

Income inequality has also declined overall in the countries that made up the former Soviet Union, the IMF found. But that's because inequality widened so sharply after the fall of communism; since around 2000, income inequality has risen in those countries, too.

The IMF researchers separated "globalization" into three components -- technology, foreign investment and trade -- and looked at how changes in each of the three corresponded with changes in income inequality globally. According to the results, technology and foreign investment deepened income inequality, while trade diminished it. Overall, globalization has contributed "moderately to net changes in income shares," the IMF found.

The fund didn't include the effects of immigration in its study, Mr. Lall said, because of a lack of global data. In rich countries, some economists argue, migration from poor countries can boost inequality because the migrants compete for low-end jobs with native workers.

Mr. Hanson said the IMF finding probably understated the effect of trade on inequality because of the difficulty in disentangling trade from technology and foreign investment. Export industries in poor countries are often funded by foreign investment, for instance, which brings new technology to the country, he said. Those export industries are more likely to hire skilled workers than unskilled ones.

According to the report, foreign investment can worsen inequality because such investment tends to focus on more technology-intensive industries, increasing the demand for skilled workers. However, growth in exports, the IMF found, is associated with an increase in the share of income that goes to the bottom three-fifths of workers. Mr. Hanson says he is skeptical of the latter finding; he and other economists have found that manufacturing exports favor those with skills.