

**REPUBLIC OF TURKEY
YILDIZ TECHNICAL UNIVERSITY
GRADUATE SCHOOL OF SOCIAL SCIENCES
DEPARTMENT OF ECONOMICS
MASTER OF ARTS PROGRAMME IN ECONOMICS**

MASTER'S THESIS

**GLOBALIZATION AND POVERTY: EVIDENCE
FROM A PANEL OF COUNTRIES IN DIFFERENT
INCOME GROUPS**

**BERK ALPER
16729005**

**THESIS SUPERVISOR
Assoc. Prof. Dr. ASUMAN OKTAYER**

**İSTANBUL
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The thesis is approved by unanimous vote of the Committee.

Title Name Surname

Signature

Thesis Supervisor : Assoc. Prof. Dr. Asuman OKTAYER

Committee Members : Prof. Dr. Hüseyin TAŞTAN

Assoc. Prof. Dr. Cenk Gökçe ADAŞ

İSTANBUL

JULY 2019

ÖZ

Küreselleşme ve Yoksulluk: Farklı Gelir Gruplarındaki Ülkelere Yönelik Bir Panel Veri Çalışması Berk Alper Temmuz, 2019

Küreselleşme, artan sermaye ve emek hareketliliği, ve ilgili politikaların dünya genelinde entegrasyonu olgularını ifade eder. Dolayısıyla küreselleşme sürecinde, çok daha yüksek uluslararası ticaret seviyesi ve finansal sermayenin artan gücü gibi benzeri görülmemiş gelişmeler, meydana gelen politik, ekonomik ve sosyal gelişmelerde merkezi bir rol oynar. Neredeyse yarım yüzyıldır sonuçlarının gözlemleniyor olmasına rağmen, küreselleşmenin etkileri hala çokça tartışılmaktadır. Bu konuyla ilgili literatür genellikle çelişkili sonuçlarla doludur. Bir yandan bazı yazarlar, küreselleşmenin, örneğin, büyüme oranını arttırmak yoluyla yoksulluğu azalttığını iddia ederken, öte yandan diğer yazarlar serbest ticaretin ve finansal küreselleşmenin aşırı yoksulluk meselesini daha da artırdığını iddia etmektedir. Bu çalışmada, farklı gelir gruplarındaki ve farklı gelişmişlik düzeylerindeki ülkelere yoksulluk ve küreselleşme ilişkisi, 1990-2016 dönemi için incelenmiştir. Sabit etkiler panel veri modelini kullandığımız analizimizin sonuçları ülkelerin gelir düzeyine bağlı olarak değişiklik göstermektedir. Modellerden elde edilen sonuçlar, ekonomik küreselleşmenin sadece orta gelirli ülkeler için yoksulluk ile anlamlı ve pozitif ilişkili olduğunu göstermektedir. Ticari küreselleşmesinin katsayıları, düşük ve yüksek gelirli ülkeler için negatif ve anlamlı bulunmuştur. Bu, ticari küreselleşmenin bu ülkelerde yoksulluğu azalttığına işaret etmektedir. Finansal küreselleşme katsayıları ise orta ve yüksek gelirli ülkeler için pozitif ve anlamlı bulunmuştur. Bütün ülkeler için ise ekonomik ve finansal küreselleşmenin katsayıları anlamlı ve pozitif bulunurken, ticari küreselleşmenin katsayısı anlamsız bulunmuştur.

Anahtar Kelimeler: Küreselleşme, Yoksulluk, Uluslararası Ticaret, Finansal Açıklık

ABSTRACT

Globalization and Poverty: Evidence From A Panel of Countries in Different Income Groups

Berk Alper

July, 2019

Globalization refers to the phenomenon of increased capital and labor mobility and integration of related policies across the globe. Therefore, during the process of globalization, unprecedented developments, such as a much higher international trade level and the increased power of financial capital have played a central role in political, economic, and social developments. Despite observing its outcomes for almost half a century, the effects of globalization are still highly debated. The literature on this subject is rich with, often contradictory, results. On one hand, some authors claim that globalization decreases poverty, for example, through increasing growth rate. On the other hand, others claim that free trade and financial globalization exacerbate extreme poverty issue. In this paper, we examine the relationship between poverty and globalization for the countries from different income groups and levels of development and covering the period between 1990-2016. The results of our analysis, in which we used fixed effects panel data models, vary depending on the income level of countries. The evidence from the models denote that economic globalization is significantly and positively associated with poverty for middle and high income countries. Coefficients of trade globalization are found negative and significant for low and high income countries, which denotes that trade globalization decreases poverty in such countries; whereas the coefficient of financial globalization is found positive, and significant for only middle income countries. For all countries, coefficients of economic and financial globalization are found to be significant and positive while the coefficient of trade globalization is found to be insignificant.

Key Words: Globalization, Poverty, International Trade, Financial Openness

ÖNSÖZ

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İstanbul; Temmuz 2019

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ABBREVIATIONS

GATT: The General Agreement on Tarrifs and Trade

GDP : Gross Domestic Product

HDI : Human Development Index

IMF : International Money Fund

MPI: Multidimensional Poverty Index

OECD: Organization for Co-Operation and Development

PEB: Parental Educational Background

UK : United Kingdom

USA: United States of America

1. INTRODUCTION

Globalization is a highly debated phenomenon and scholars have many different approaches. Some praise its virtues while others criticize its devastating consequences. For example, Bhagwati (2004, 53-92) believes that globalization has promoted democracy and, reduced poverty through increasing growth rate. However, Bourdieu (1998) have a different understanding of globalization. According to Bourdieu (1998), The globalization process triggers a program for the elimination of collective structures that can hinder the pure market logic. In order to promote and safeguard the efficiency of markets; political barriers, which create obstacles to those who are owners of capitals, should be eliminated.

Therefore, this concept includes conditions in the economic, political and social areas that a country that is involved in the process of globalization has to realize. These conditions have been introduced with the Washington Consensus and are being implemented as part of the austerity programs designed by the International Monetary Fund (IMF) and the World Bank (Yeldan, 2007,43), especially for developing countries that are struggling with the crisis.

Leaving aside the arguments on globalization for a moment, this term can be broadly defined as follows: Globalization is a process of integration of national economies through trade, foreign direct investment, short-term capital flows, international labor flows and technology flows (Bhagwati, 2004, 3).

The main focus of this study is to investigate globalization's effect on poverty. To carry out that, at the beginning of the second section, vital changes in important aspects of the economy, which took place in the process of globalization, will be mentioned. Along with that, in the same section, we provide statistics regarding developments in the process of the globalization. Besides, in the literature, the outcomes of globalization is a matter on which there are lots of opinions. Some scholars suggest that it cause the fall in labor standards, distortion in income distribution, loss of

national sovereignty and increase in capital mobility which can have adverse effects on economies such as a close relationship between financial crises and capital mobility (Rodrik, 2017, 10). However, other scholars stress the positive outcomes of globalization. Such authors claim that globalization leads to a higher level of democracy, poverty alleviation and rise in growth rates. In this section, such negative and positive outcomes of globalization will be debated and some statistics regarding the results of globalization will be provided. we provide statistics to support some of the arguments as well.

In the third section, at first, the definition of absolute poverty will be provided. Subsequently, measuring methods of poverty will be discussed by demonstrating some of the method's positive and negative sides. For instance, the headcount index is criticized for not taking the intensity of poverty into account however it has an advantage that it is easy to comprehend (World Bank, 2005, 70). Besides, conceptual and statistical problems related to absolute poverty approach is discussed. After that, objections and alternative approaches, such as relative poverty, will be demonstrated in the same section. At the end of the third section, definitions of composite poverty indicators, like the Human Development Index and Multidimensional Poverty Index, will be demonstrated.

In the fourth section, firstly, how globalization can affect poverty will be argued by denoting theoretical background. Secondly, studies that aim to investigate the relationship between globalization and poverty will be held. In other words, in the last section, empirical studies on globalization and poverty will be presented in this section as well. Thirdly, variables, models and data which covers the period between 1990-2016, includes 101 countries. That 101 countries are constituted of 19 low income countries, 53 middle income countries and 29 high income countries. Despite using the headcount ratio as a dependent variable, including 29 high income countries can be deemed as odd. In the literature, mostly, high income countries are excluded and it is indicated that often advanced economies define poverty in relative terms whereas developing countries, mostly, define it in absolute terms (Garroway, de Laiglesia, 2012, 9). The reason why high income countries are included in our sample is that in some high income countries, the level of extreme poverty exceeds some of middle income countries' extreme poverty level. For instance, in Turkey, which is a middle income country, percentage of the population living on less than \$1.90 a day at 2011

international prices was 0.2 in 2016, whereas it was 1.2 in the United States of America, and 2.0 in Italy in 2015. Finally, by using fixed effects model, the relationship between globalization and poverty is analyzed. We perform this analyze not only for all countries but also low income countries, middle income countries and high income countries.

2. GLOBALIZATION AND ITS OUTCOMES

During the ages of globalization, countries went through lots of changes and such changes lead to important economic and political consequences which can affect poverty drastically. In this chapter, some developments in the process of globalization will be mentioned and then possible outcomes of globalization will be mentioned.

2.1. The Historical Process of Globalization

The process of globalization can be split into two ages. The first age of globalization occurred from 1870 to 1914 and came to end with the advent of World War 1. The second age of globalization took place from 1960 to the present. In this subtitle, the impact of globalization on important matters such as the structure of countries, growth, income distribution and poverty, will be mentioned.

2.1.1. The First Age of Globalization

The first age of globalization took place from 1870 to 1914, during this era international trade grew annually at a 4%, rising from 10% of global output in 1870 to over 20% in 1914, and international flows of capital grew annually at 4.8% from 7% of Gross Domestic Product (GDP) in 1870 to close to 20 % in 1914 (Mishkin, 2009,141).

This era was accompanied by unprecedented prosperity. During the period of 1870-1914, world GDP per capita grew at an annual rate of 1.3%, while from 1820-1870, it grew at a much smaller rate of 0.53% (Mishkin, 2009, 141).

The phenomenal growth began in the weaning and cotton ginning industries in the 1730s. This was followed by the rapid advances achieved in railroad transportation and trans-oceanic shipping based on steam power. Developments in transportation infrastructure can be seen in figure 1. Given these developments, the structural

composition of the labor force has changed, in England for example, and the share of industrial labor in the total has increased from 30% in the early 1800s, to 47% in 1840, and to 49% in 1870 (Yeldan, 2007, 45).

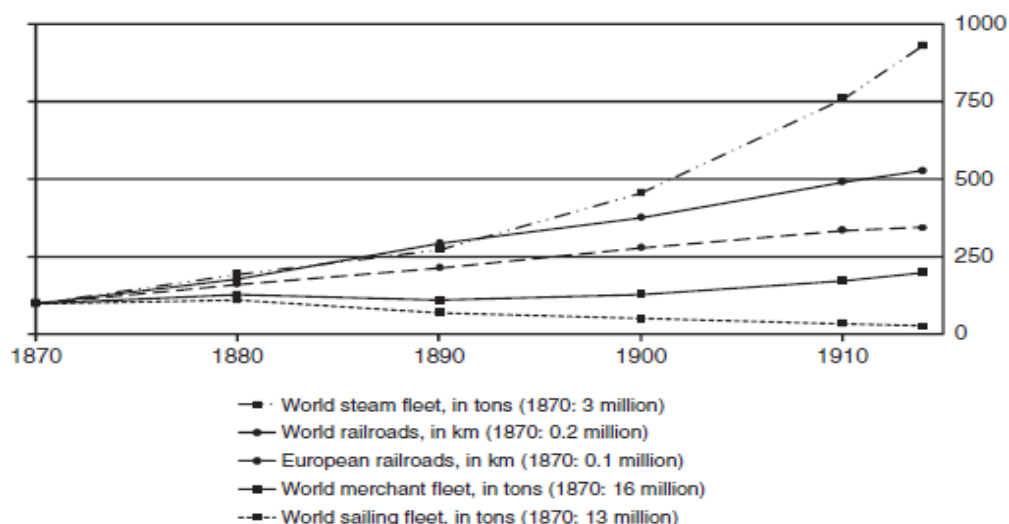


Figure 1: Transport infrastructure, 1870-1913 (index numbers, 1870 =100)

Broadberry, Stephen. Kevin H. O'Rourke 2010. **The Cambridge Economic History of Modern Europe: Volume 2, 1870 to the Present**. New York: Cambridge University Press, p.9

According to Mishkin (2009, 141-142), the increasing economic growth rate narrows the income gap between poor and rich countries which participated in global markets. Japan provides a good illustration for this case. In the 17th century, Japan isolated itself from the rest of the world, allowing only one Dutch ship per year to land in Nagasaki to carry out a limited amount of trading. In 1853, USA warships, commanded by Commodore Matthew Perry, arrived on Japanese shores in order to compel Japan to trade with the United States of America (USA). This process influenced Japan deeply, which eventually led to Meiji restoration in 1868. Then, Japan integrated into the global economic system. From 1870, in which Japan was an underdeveloped country, to 1913, Japan managed to increase its per capita income at a rate of 1.5% annually. Meanwhile, the United Kingdom increase its per capita income at a rate of 1% annually. Thus, the income gap between Japan and the United Kingdom decreased (Mishkin, 2009, 142).

However, in the process of globalization, each country did not perform as well as other countries, such as Japan. Table 1 represents this situation very well. This table points

out each nation's per capita income relative to the UK during 1850-1910. Income divergence especially between third world countries and developed countries, such as the UK, went up in this period.

Table 1: Income Divergence/Convergence in the First Age of Globalization

(UK =100)	Bairoch Data		Maddison Data		
	1860	1910		1850	1913
Denmark	56	78	Canada	54	84
Germany	61	77	US	77	105
Switzerland	72	85	Argentina	56	75
Sweden	52	64	Ireland (b)	40	54
Belgium	70	80	Germany	62	76
Finland	43	47	Finland(a)	32	41
France	66	69	Sweden	55	62
Netherlands	71	72	Belgium	77	82
UK	100	100	Italy(a)	46	50
Norway	57	56	Denmark	72	75
Romania	37	35	Mexico	28	29
Russia	35	31	UK	100	100
Italy	49	44	Norway	46	45
Austro-Hungary	51	46	Austria	70	69

Table 1- continue

Bulgaria	37	31	Netherlands	80	78
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Greece	41	35	France	71	69
Spain	49	41	Russia (a)	32	30
Serbia	39	29	Japan(a)	30	27
Germany	50	33	Czechoslova	45	42
			Spain	49	45
			Pakistan (a)	22	14
			Switzerland	92	84
			China(a)	22	14
			Indonesia	28	18
			India	23	13
			Bangladesh	22	12
			Hungary(b)	54	42
			Brazil	30	17
			Thailand(b)	30	17
			Portugal	47	27
			Australia	130	109

Baldwin, Richard E, Philippe Martin. 1999. Two Waves of Globalisation: Superficial Similarities, Fundamental Differences. **National Bureau of Economic Research**. Working Paper No.6904: 1-33, p.6

Notes: (a) 1850 data is from 1820 ; (b) 1850 data is from 1870

It is also stated by scholars that one of the most important driving factors behind income divergence is the deindustrialization of third world countries (Baldwin, Martin, 1999, 6). This situation is also presented in Table 2. For example, India was the leader of world textile production until the 18th century. However, by the 19th century, India was transformed into a peripheral economy, which imports 70% of its textile

consumption into raw cotton (Yeldan, 2007, 45). The deindustrialization process can be described as the following (Kozul-Wright, Bairoch, 1996, 16):

“There seems little doubt that de-industrialisation in the South was the result of a massive inflow of European manufactured imports. This was particularly true of textile and clothing industries, where free trade exposed the local artisanal and craft producers to the destructive competitive gale of more capital intensive, high productivity Northern producers.”

Table 2: Per Capita Industrilization Levels, 1750-1913

(UK in 1900=100)	1750	1800	1830	1860	1880	1900	1913
Developed countries	8	8	11	16	24	35	55
Europe	8	8	11	17	23	33	45
Europe (ex-UK)	7	8	9	14	21	36	57
Austria-Hungary	7	7	8	11	15	23	32
Belgium	9	10	14	28	43	56	88
France	9	9	12	20	28	39	59
Germany	8	8	9	15	25	52	85
Italy	8	8	8	10	12	17	26
Russia	6	6	7	8	10	15	20
Spain	7	7	8	11	14	19	22
Sweden	7	8	9	15	24	41	67
Switzerland	7	10	16	26	39	67	85

Table 2 - continue

UK	10	16	25	64	87	100	115
Outside Europe	7	7	11	17	33	63	116
Canada		5	6	7	10	24	46
USA	4	9	14	21	38	69	126
Japan	7	7	8	7	9	12	20
Third World	7	6	6	4	3	2	2
China	8	6	6	4	4	3	3
India-Pakistan	7	6	6	3	2	1	2
Brazil				4	4	5	7
Mexico				5	4	5	7
World	7	6	7	7	9	14	21

Baldwin, Richard E, Philippe Martin. 1999. Two Waves of Globalisation: Superficial Similarities, Fundamental Differences. **National Bureau of Economic Research**. Working Paper No.6904: 1-33, p.4

Baldwin and Martin (1999, 7) created a model with two regions, South and North, to understand the reason for this increased income divergence during the first age of globalization. The reason is can be given as follows. First, the transportation costs in the pre-globalization stage are high. Level of trade is low and the industry is primitive, rare and stagnant. Due to high transportation costs, the industry is also scattered with a little bit of it in the North and in the South. This geographic state is also an important factor in industrial stagnation. The reason is, such dispersion restrains interactions among entrepreneurs which mutes the spillovers that could stem from the odd technological breakthrough taking place in one place or another. The dampening of spillovers adversely affects innovation and technological progress and thus, world

growth is retarded. In the second stage which is the first wave of globalization, transportation cost becomes low, agglomeration of forces make the even distribution of industry an unstable equilibrium. In this stylized world, regions are initially identical. For this reason, which region takes off first is a matter of chance. Whichever region edges ahead initially, let's call it the "North", finds itself in a virtuous cycle. Due to the higher income level in the North, the local market in the North grows which attracts the investors. The higher investment rate leads to growing market size gap and the cycle restarts. This is, compared to the South, Northern industry benefits more from increasing industrialization in the North. As the North went through the Industrial Revolution, deindustrialization took place in the South, due to competition from Northern exports.

With the outbreak of two major wars, the rise of the Soviet System and the welfare state policies of the Western world, the first age of the globalization ended (Yeldan,2007,45).

2.1.2. The Second Age of the Globalization: 1960- Present

After World War II, the world witnessed an extraordinary period. Even before the war ended, the Allies realized that the mistakes that took place during the interwar period should not be repeated. Therefore, in order to develop a new international system to promote world trade and prosperity, they met in Bretton Woods in 1944. Two new financial institutions were established, which are IMF (International Monetary Fund), whose jobs were to oversee the international financial system and ensure that it would facilitate trade among countries, and World Bank, whose job was to provide long term loans to Europe that went through war and to developing countries to contribute or help their economic development. Additional organizations from the Bretton Woods meeting, which were not established until 1947, were the General Agreement on Tariff and Trade (GATT). Later, this organization turned into the World Trade Organization. The aim of creating new institutions was to promote globalization and succeeded in these initiatives (Mishkin, 2009, 143). Both trade globalization and financial globalization have increased exponentially in this age.

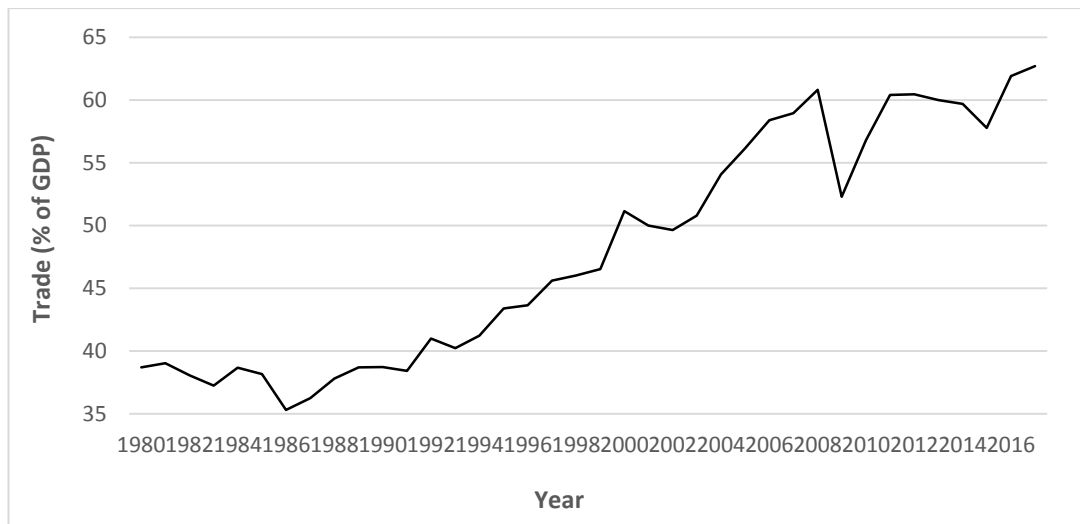


Figure 2: International World Trade (% of GDP)

World Bank. World Development Indicators. <https://databank.worldbank.org/data/source/world-development-indicators> [08.02.2019]

The ratio of international trade to GDP has risen almost continuously from 35.3% in 1986 to 60.8% in 2008. The financial crises pushed the world trade level down. After a sharp decline by approximately 14% in 2009, the world trade began to rise again to the levels even higher than the levels in 2009 today. This can be observed in figure 2.

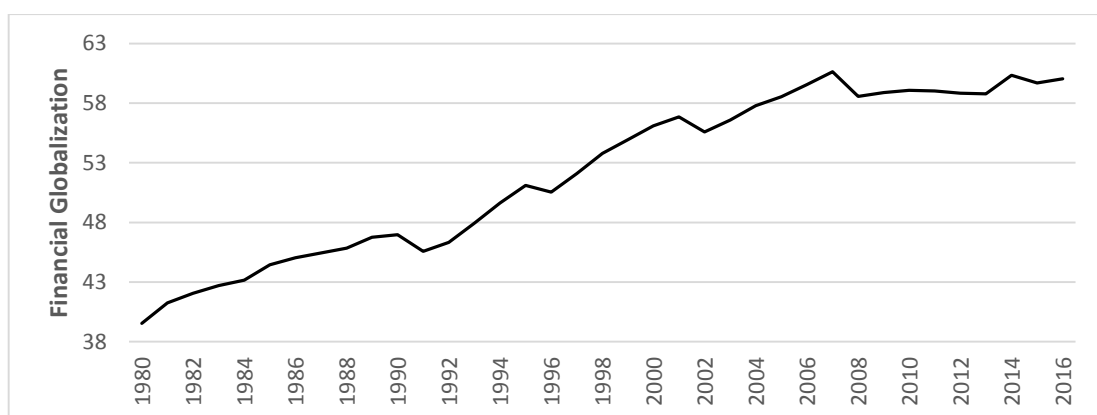


Figure 3: Financial Globalization

Dreher, Axel. 2006. Does Globalization Affect Growth? Evidence from a New Index of Globalization. *Applied Economics*. Vol.38. Issue 10: 1091-1110.

In addition to international trade, international financial investment transactions have increased considerably since 1980. Figure 3 shows the trend of financial globalization. This graph is depicted by using finance sub-index of KOF Index of Globalization data conceived by Dreher (2006) and revisited by Gygli et. al. (2019). As can be seen from the related figure, financial markets have been significantly globalized since 1980. The value of financial globalization index is 39.5 in 1980 while it is 60 in 2016; which means a 52% increase.

As it is mentioned, globalization is highly discussed with the effects that bring about. One of the striking developments in the process of globalization is decreasing extreme poverty. Percentage of the population living on less than \$1.90 a day at 2011 international prices has decreased from 42.1 to 9.9%, which can be observed in figure 4.

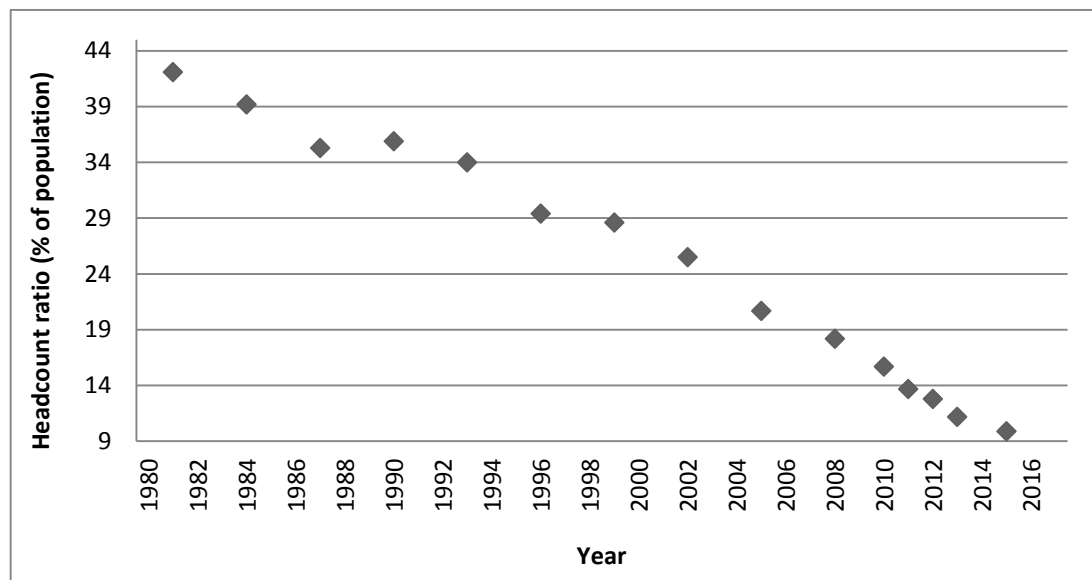


Figure 4: Percentage Of The Population Living On Less Than \$1.90 A Day At 2011 International Prices, (1981-2015)

World Bank. World Development Indicators. <https://databank.worldbank.org/data/source/world-development-indicators> [08.02.2019]

If we separate countries by income groups, the declining trend of poverty for each type of countries can be seen. This situation can be followed in figure 5 and figure 6.

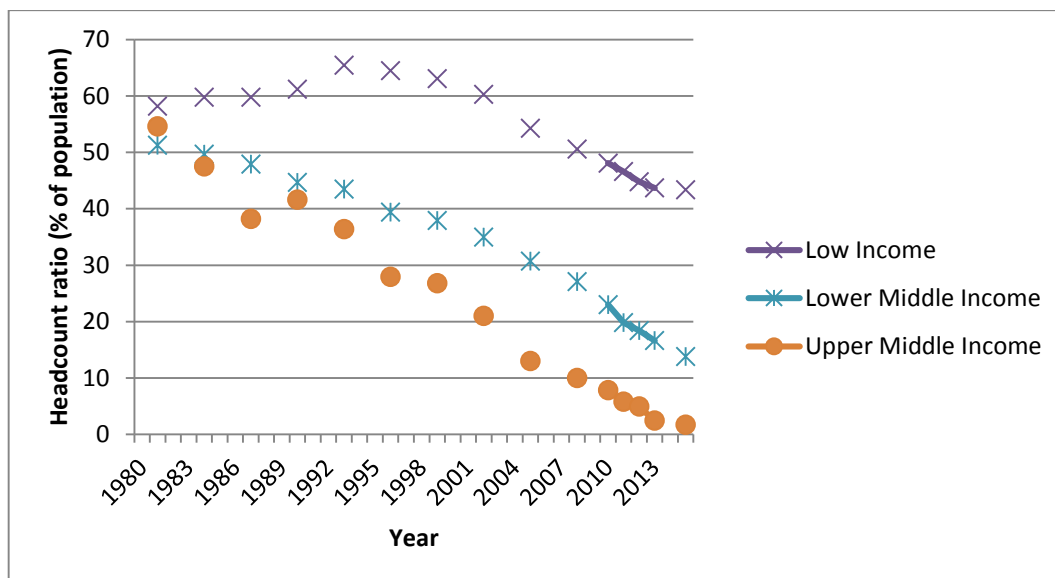


Figure 5: Percentage Of The Population Living On Less Than \$1.90 A Day at 2011 International Prices in Lower, Lower Middle, Upper Middle Income Countries, (1981-2015)

World Bank. World Development Indicators. <https://databank.worldbank.org/data/source/world-development-indicators> [08.02.2019]

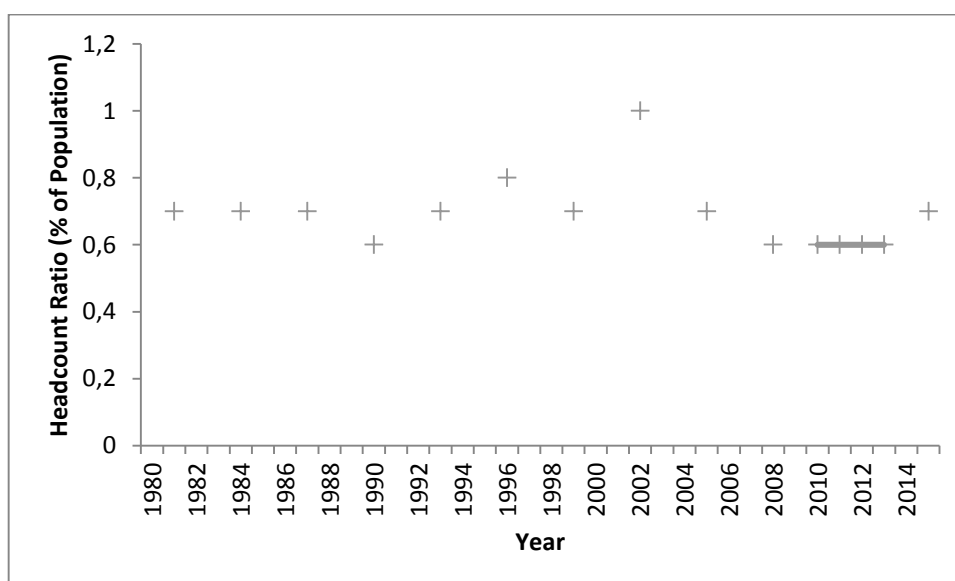


Figure 6: Percentage Of The Population Living On Less Than \$1.90 A Day at 2011 International Prices in High Income Income Countries, (1981-2015)

World Bank. World Development Indicators. <https://databank.worldbank.org/data/source/world-development-indicators> [08.02.2019]

According to Yeldan (2007, 46), during the second age of globalization income distribution is distorted. The world Gini coefficient of the income distribution was 0.66 in 1965; went up to 0.68 in 1980; to 0.74 in 1990. The average of the lowest percentile of world income was 74\$ in 1965, in comparison to the average of the highest percentile which was 2,281\$. This gave a ratio of 1 to 31. By 1990, the figures for the comparable percentiles were calculated to be \$283 for the lowest and \$17,065 for the highest group. This means to the ratio of 1 to 60.

Since 1980, the top 10% income shares across the world has appeared to rise. In most regions, it increased gradually but in Europe that rise was moderate. Besides in three regions which are Brazil, the Middle East, and Sub Saharan Africa, inequality is persistent and extreme. These developments can be seen in figure 7 (Alvaredo et al., 2018, 42).

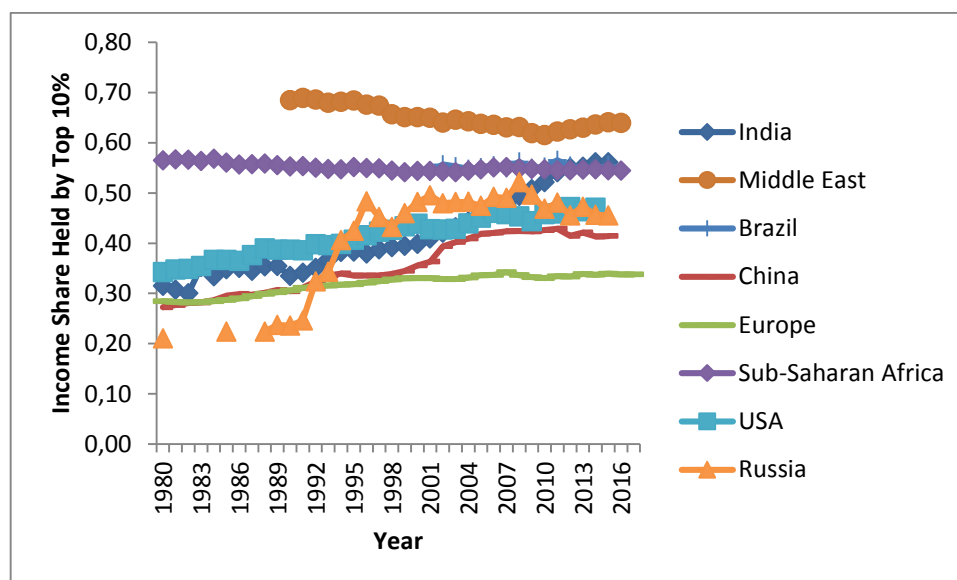


Figure 7: Income Share Held By Top 10%

World Inequality Database. <https://wid.world/> [07.01.2019].

However, if we measure income inequality by gini index, the case is different. It can be said that developments regarding income inequality after 1980's are mixed across the world. To clarify, in countries like Costa Rica, USA, and Spain income inequality seems to rise. However, income inequality decrease in some countries like Mexico, United Kingdom and Brazil. Gini index in some developed and developing countries can be seen in figure 8 and figure 9.

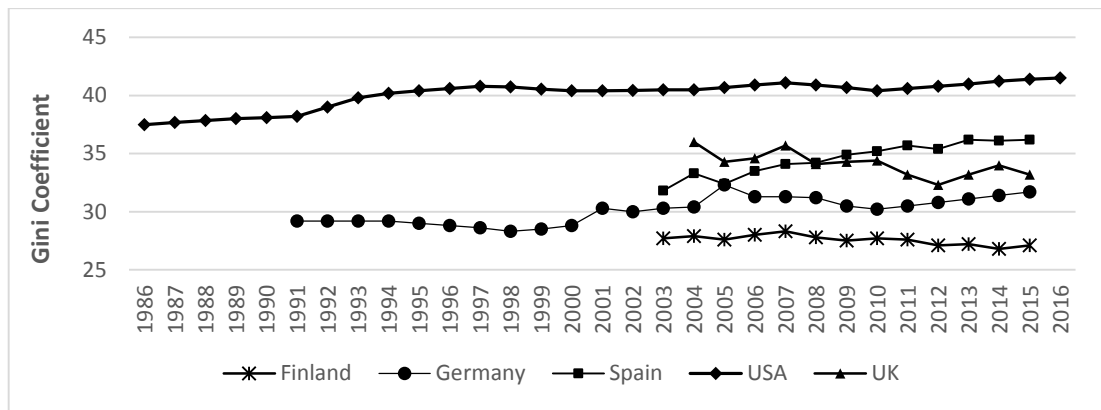


Figure 8: Gini Index for Some Developed Countries

World Bank. World Development Indicators. <https://databank.worldbank.org/data/source/world-development-indicators> [08.02.2019]

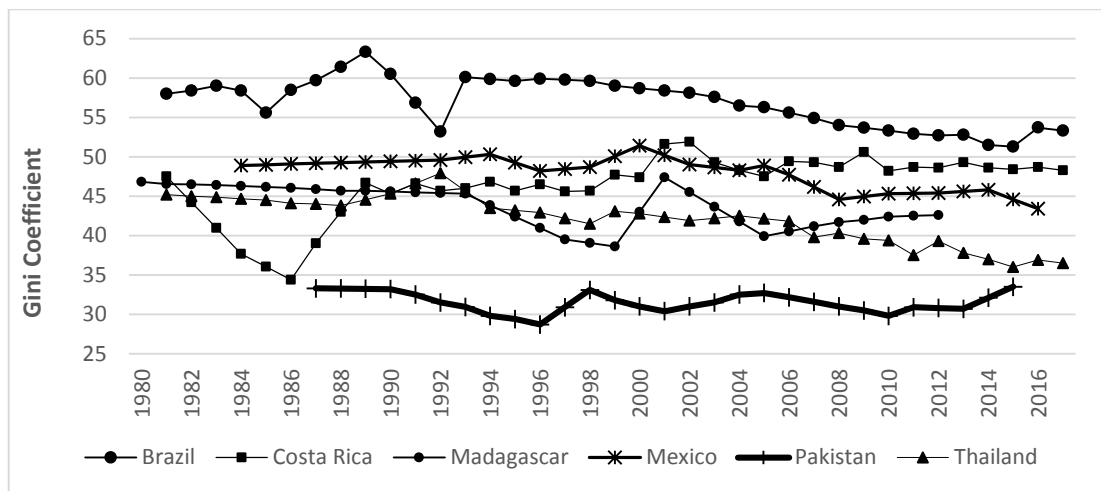


Figure 9: Gini Index for Some Developing Countries

World Bank. World Development Indicators. <https://databank.worldbank.org/data/source/world-development-indicators> [08.02.2019]

Deindustrialization is observed to have gone up, during this age, in developed countries in which situation can be observed in table 3.

According to Yeldan (2007, 47), increasing deindustrialization in developed countries is the result of the death of Fordist production technologies in sustaining the profitability of capital. The Fordist model was based on mass production for the mass consumption market. The need for mass consumption necessitated a generally tolerant stance against wage labor through recognition of many labor rights. However, with the spread of production facilities across the world, this production system reached limits.

By means of intensified competition, which stems from technological reverse engineering, imitation and cheap labor costs, developing countries mainly of East Asia started to capture market shares that traditionally belonged to the North..

Table 3: Manufacturing, Value Added (% of GDP) in Developed Countries and the World, 1980-2017

	1980	1990	2000	2010	2016	2017
Australia	n.a	13,824288	11,598995	8,0029775	6,0674715	5,7465448
United States	n.a	n.a	15,009347	12,059145	11,549353	n.a
Austria	21,203227	19,581115	18,214967	16,478501	16,709604	16,634993
Belgium	n.a	n.a	17,458582	13,166046	12,595738	12,833767
Denmark	16,009759	14,865287	14,144872	10,933909	12,990473	12,522893
Finland	24,185025	19,498956	24,182268	17,075361	14,657546	15,159541
France	18,494809	16,207266	14,477558	10,327126	10,310971	10,138652
Germany	n.a	n.a	20,728663	19,967559	21,087111	21,060159
Italy	n.a	19,894769	17,511329	14,227294	14,766797	14,921414
The Netherlands	16,559687	16,935849	13,682958	10,469237	10,85105	10,89834
Norway	13,452348	10,312058	8,8427772	7,1858811	6,5175924	6,2997078
Sweden	20,939551	18,441844	20,310978	16,338132	13,354518	13,581102
Switzerland	n.a	20,493867	17,869216	18,792922	17,913815	17,920614
United Kingdom	n.a	16,704075	13,056097	8,9007261	8,9370325	8,9717212
Japan	n.a	n.a	22,558201	20,833014	21,048952	n.a
World	n.a	n.a	16,907693	15,957063	15,691623	n.a

World Bank. World Development Indicators. <https://databank.worldbank.org/data/source/world-development-indicators> [08.02.2019].

All in all, with the impact of developments mentioned, during the second age of globalization the world witnessed ascendancy of finance over industry (Yeldan, 2007, 47).

2.2. Outcomes of Globalization

In the literature, outcomes of globalization are widely debated. Some scholars praise it for its positive impacts on democracy, poverty alleviation and growth rates. On contrary to that scholars, others pay special attention to adverse impacts of globalization on national sovereignty, income distribution. Besides, the detrimental impacts of capital mobility is another important matter that skeptical scholars pay attention to. In this subtitle, globalization's possible outcomes will be investigated by providing theoretical background some of which are supported by examples and/or data.

2.2.1. Negative Outcomes of Globalization

As mentioned, some scholars, in their studies, underlie globalization's negative effects on political and economic fields such as loss of national sovereignty, rise in income inequality and adverse impacts of increasing capital mobility and the fall in labor standards. In this chapter, such negative outcomes of globalization will be analyzed under four subsections.

2.2.1.1. Loss of National Sovereignty

One of the most important accusations regarding the globalization is that globalization causes eroding of national sovereignty. Institutions like IMF and WTO prevents countries from making their own policies. For example, at the end of 2001, in South Africa alone, 20% of the adult population were infected with HIV, which leads to AIDS. Antiretroviral drugs suppressing the infection was available but costly. Facing high drug prices, The South African government began to consider the possibility of licensing local pharmaceutical production. However, the United States responded to this development with the threat of a commercial sanction to defend intellectual property rights. Fortunately, with the help of AIDS activists, the USA government dropped this threat. Ironically, in the same year, letters containing anthrax spores were sent to several news media outlets and to two USA senators. As a result of inhaling these spores, 5 people died. This incident of bioterrorism leads to panic in Canada and the USA. Then, the Canadian government announces that it would compulsorily license the manufacture of Cipro, the drug which is most effective against anthrax. Meanwhile, the USA government made it clear that they would not buy Cipro, but

instead they would buy a cheaper generic version unless the price of Cipro was not reduced. So, these events provide perfect examples of loss of national sovereignty and double standards of developed countries(Singer, 2016, 190-192) .

The IMF has also been accused of preventing countries from implementing their own policies. According to Stiglitz (2002, 26-30), in 1997, the IMF suspended its lending program even though Ethiopia had solid macroeconomic indicators. The reason for this is that Ethiopia has created a rural development strategy that aims to help poor people, in particular, 85% of the population living in rural areas. At this time taxes and foreign assistance were two main revenue sources of Ethiopia. Like many developing countries around the world, Ethiopia's revenue was coming from foreign aids. The IMF worried that in the absence of foreign aids, Ethiopia would be in trouble. Thus, it is argued that the budgetary position of Ethiopia could only be considered good if it was limited to the taxes it had collected. So, as seen, countries can not conduct their own policies. However, this is not an only a dispute between the IMF and Ethiopia. Ethiopia once had repaid an American bank loan early, using some of its reserves. However, it is stated that the transaction made perfect sense. In spite of the quality of collateral which was an airplane, Ethiopia was paying a far high interest rate on its loan than it was receiving on its reserves. The USA and the IMF objected to such transaction since Ethiopia carried it out without IMF's approval. Thereby, based on the perspective of USA and the IMF, countries can not do any action without asking permission of the IMF.

Rodrik (2011, 26-30) provides an alternative explanation for why democratic politics, nation state and deep globalization can not coexist together. It is stated that we can have at most two out of three. For example, If we want hyperglobalization and democracy, we need to leave out nation state (see figure 10).

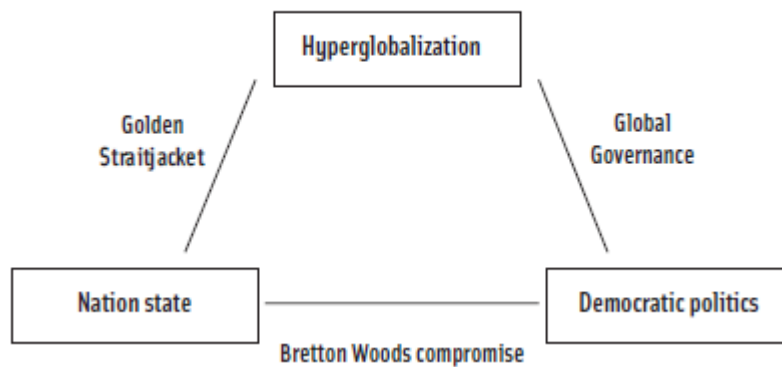


Figure 10: Political Trilemma

Rodrik, Dani. 2011. *The Globalization Paradox: Why Global Markets, States, and Democracy Can't Coexist*. New York: Oxford University Press, 201

Before discussing the reason why once we pick nation state and hyperglobalization, we need to give up on democratic politics, we should first define what “Golden Straitjacket” is. “Golden Straitjacket” is a term used to describe this situation and coined by Thomas Friedman (2000). The term that Golden Straitjacket means that in order to establish the market’s confidence policies like a balanced budget, removing restrictions on foreign capital and, shrinking of its state bureaucracy should be followed by countries. According to Friedmann (2000, 105), once countries put on a golden straitjacket, two things tend to happen: Firstly, economic growth occurs through more trade, foreign investment, privatization and more efficient use of resources under the pressure which is provided by globalization. Secondly, politics shrink. Once, a government is led by, for example, socialists, investors may avoid to invest in such a country and then that country encounter with a rise in interest rates and fall in stock market valuations. Therefore, politics in countries become less important. According to Rodrik (2011, 201), this term resembles the era of the gold standard before World War 1. Being not capable of implement policies towards domestic economic and social goals, national governments were then free to focus on strict monetary rules. In addition, external restraints more apparent under imperialism and mercantilism. It is asserted that nation states did not exist before the 19th century, but that the global economic system was operated along the lines of the Golden Straitjacket. Countries were compelled to implement particular policies such as open

border, protection of the rights of foreign merchants and investors. Such policies were imposed by imperial powers and chartered trading companies.

According to Rodrik (2011, 202), demands of the hyperglobalization and the gold standard era were similar. He states that hyperglobalization demands crowding out domestic policies. For instance, the insulation of economic policy making bodies, the disappearance of social insurance, the push for low corporate taxes, the erosion of the social compact between business and labor, and the replacement of domestic development targets with the need to maintain market trust. As seen, once the rules of the game imposed by the global requirements of the global economy, national economic policy making becomes inevitably restricted.

The second option is giving up on nation state. This situation is called "global governance". Empower global institutions with regulatory and standard setting powers would align legal and political jurisdictions with reach of markets and remove the transaction costs related to national borders. The US model expanded on a global scale can set a good example. Within the US a national constitution, the federal government, federal judiciary, and a large number of nationwide regulatory agencies ensure that markets are truly national despite many differences in regulatory and taxation practices among individual states. As good as it sounds, there are two noteworthy, the term that global governance is criticized for two reasons. First of all, a lack of accountability is an important issue. To clarify, some economists have proposed an international financial regulator since, according to them, politicians weaken the local regulations required at the national level. So, they claim that autonomous global technocracy leads to better global governance. However, it is clear that in such a case, accountability of such institution is an important issue. Secondly, it is doubtful that global governance may get through the problems posed by hyperglobalization. For instance, Let's think about a situation where China's toys exported to the US contain a dangerous amount of lead or some of the goods exported from Indonesia to the United States and Europe are produced by using child labor. Global governance can offer two possible solutions to overcome such problems. First, a solution is to set global standards for all countries to comply. However, this kind of solution has some problems. Firstly, implementing these global standards is difficult for many developing countries. For example, Chinese lead paint standards are quite stringent but China is not capable of enforcing and monitoring such standards due to lack of ability stemming from administrative,

human resource, and financial constraints. Secondly, setting these standards may cause undesirable consequences. For example, activists in rich countries object to child labor, which is an inevitable consequence of poverty. However, preventing young children from working in factories may cause negative outcomes rather than positive outcomes. Since potential alternative for the children is not going to school but employment in domestic trades that are even more unacceptable. The second solution is market based solutions. Market-based solutions involve managing information supply, rather than maintaining a commitment to global standards. This type of solutions state that if we inform the exporter as to conditions of productions which they export, buyers can make their own decision. It is asserted that there are three problems in that type of solutions. First of all the failure of credit rating agencies after the 2008 crisis has emerged and this reveals a failure of a market based solution approach. Secondly, producers show little interest on getting "fair trade" label. It is surprising in the light of apparent advantages, most notably in terms of better prices. However, in reality, the price premium the producers receive appears to low compared to what they could get from producing something else. Furthermore, often, such a price premium was not high enough to cover the investments required to meet the certification requirements. Finally, the foremost important objection regarding labeling and other market based solutions is that they overlook the social dimension of standard setting. For instance, according to the conventional approach, in case of safety and health hazards, the need of standards emerge, not labeling. It is suggested that even libertarians would not propose the deal with the problem of lead tainted toy exported by China, by means of labeling such toys and let customers make their decision based on health hazard/price trade off. Therefore, people prefer uniform, government mandated standards(Rodrik, 2011, 202-227).

The last option is to sacrifice hyperglobalization. The Bretton Woods GATT regime did this, so this is why this situation is named as "The Bretton Woods" compromise. This compromise permits countries to implement their own policies as long as they remove some restrictions on trade and generally exchange all their partners. Until the 1980s, countries followed divergent paths of developments. For example, when China recognized the private initiative, China grew significantly, despite refusing all other guidelines in the guidebook. (Rodrik, 2011, 204).

2.2.1.2. The Fall in Labor Standards

Globalization can impact labor market through two channels. First is the effect of the relative demands for skilled and unskilled workers (Rodrik, 1997, 12). According to Heckscher Ohlin model countries which are abundant in unskilled labor will specialize in the production of goods that are unskilled labor intensive as countries which are abundant in skilled labor will specialize in the production of skilled labor intensive goods. Stolper Samuelson Theorem concerns about income distributional outcome of this model. This theorem suggests that a trade between countries, skilled labor abundant country and unskilled labor abundant country, increase the return of unskilled labor in a developing country but in a developed country the return of unskilled labor decreases. Hence, Samuelson himself supports protection policy in order to protect high real wages of labor in USA (Kazgan, 2014, 171). However, there are two objections to regarding such outcomes. First of these is, according to Pavcnik and Goldberg (2007, 26), in contrast to Stolper Samuelson theorem, wage inequality between skilled and unskilled labor in a developing country has risen. The second objection is that contrary to the Heckscher Ohlin model, the bulk of trade carried out between developed countries. The other channel which impacts labor market is, increase in the elasticity of demand for labor. As economies become more open to foreign trade and investment, the elasticity of demand for labor increases. The reason is that domestic workers can be substituted by foreign workers. Rodrik (1997, 16-18), theoretically, discusses the possible outcome of this situation. He states that increased trade and investment opportunities make it more costly for workers to achieve a high level of labor standards and benefits. Since the demand for labor has become more elastic, the cost of achieving high level labor standards and benefits borne by workers has increased.

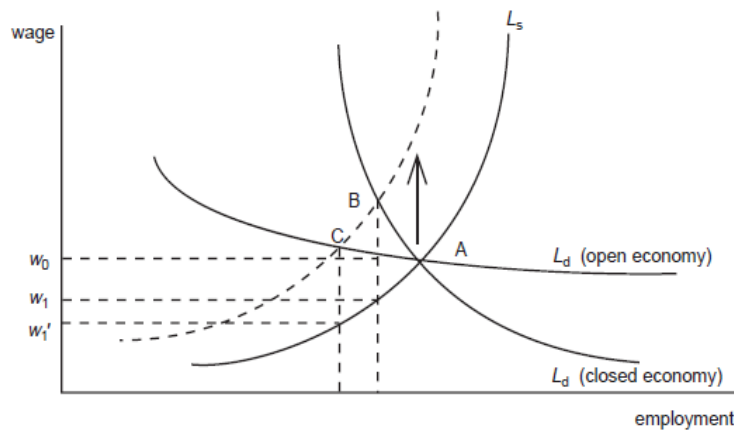


Figure 11: Effects of Openness on the Distribution of the Costs of Labor Standards Between Employers and Workers

Rodrik, Dani.1997. **Has Globalization Gone Too Far**. Washington, DC: Institute for International Economics, p.18

With the help of the figure 11, we can throw some light on the consequences of an enhance in the elasticity of demand for labor. At the initial point, A wage is w_0 . Enhancing labor standards may have two possible outcomes. Labor standards can be considered as a tax on employment by employers. As a consequence, the labor supply curve shifts left. The elasticity of demand for labor determines how the cost is distributed between employers and workers. In an open economy, workers must take the greater part of the cost since elasticity of demand for labor is high. Therefore, wages fall from w_0 to w_1 . Employment reduces as well (Point C). Another possible outcome occurs in a closed economy. In a closed economy, compared to an open economy, the elasticity of demand for labor is low. Hence, the cost borne by workers is relatively low compared to an open economy case (Point B) (Rodrik, 1997, 18).

This relates to the well known argument of the race to the bottom that states since companies have the option of relocating their plants, they will choose the country with the lowest labor standards. In the end, that cause degradation of labor standards (Goldberg, Pavcnik, 2007, 49).

The second outcome of an increase in the elasticity of demand for labor is that shocks to labor demand now result in greater volatility or uncertainty (Rodrik, 1997, 19-20).

It is stated that in an open economy, shocks would have a greater effect. In figure 12, we can show this situation as below.

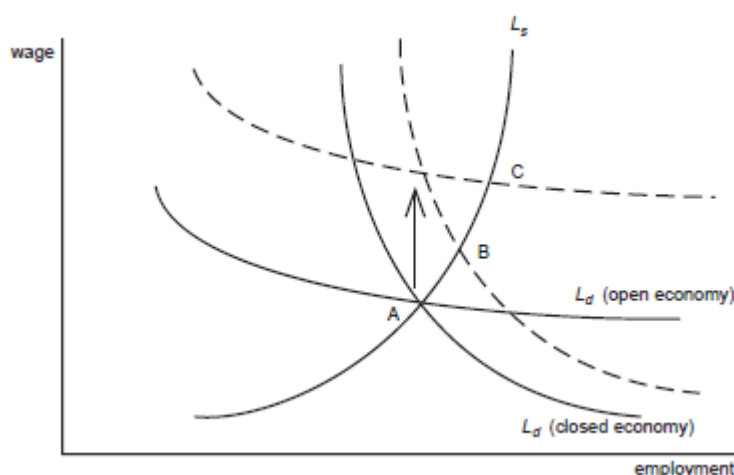


Figure 12: Effect of Openness on the Labor Market's Reaction to Shocks

Rodrik, Dani.1997. **Has Globalization Gone Too Far**. Washington, DC: Institute for International Economics, p.20

The initial labor market equilibrium point in an advanced economy is denoted by point A. The figure shows the outcome of positive shock. For the closed economy, equilibrium occurs at point B, both employment and wage increase. For the open economy, equilibrium takes place at point C, both employment and wage increase. However, an increase in wage and employment in the open economy is greater than an increase in the closed economy. Additionally, in case of a negative shock, in the open economy, reductions in employment and wage would be greater than a fall in employment and wage in the closed economy. The reason is, economic openness flattens labor demand curve more. Thereby, reactions to shocks are amplified (Rodrik, 1997, 20).

As a response of greater substitutability of labor, bargaining power of labor has eroded which contributes to the weakening of unions (Rodrik, 1997, 23). In both developed and developing countries, unionization rates are observed to decrease. For example, in Turkey and the USA, such a trend has been observed. That trend can be seen in table 4 and figure 13.

Table 4: Trade Union Density in Turkey

Year	Trade Union Density %
1980	39,5
1997	29,4
2000	29,4
2002	22,8
2007	10,7
2012	6,3
2013	6,9
2014	8,0
2015	8,2
2016	8,6

Organization for Economic Co-Operation
Development. <https://stats.oecd.org/>

[08.01.2019].

Note: Actual trade density is calculated by collective bargaining coverage divided by total number of workers.

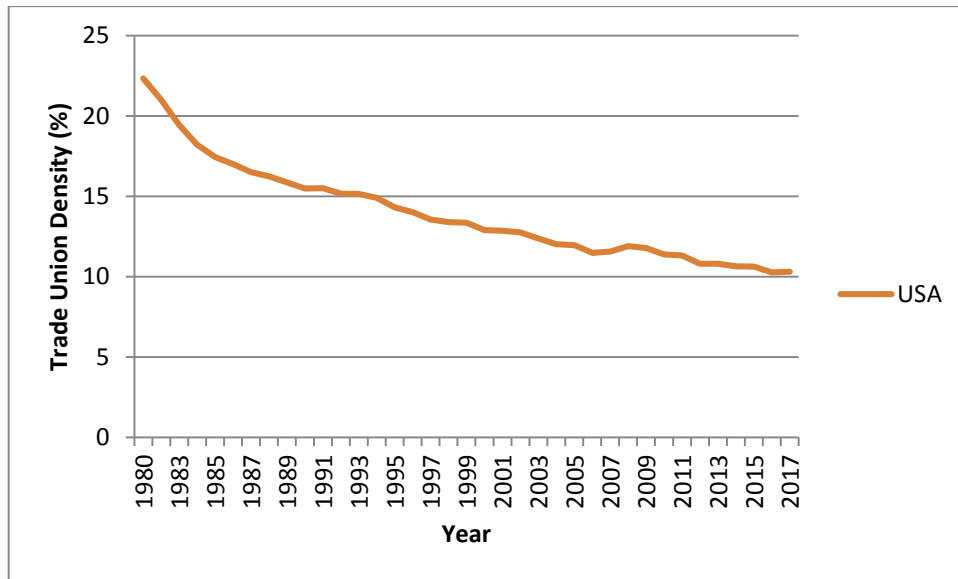


Figure 13: Trade Union Density in USA

Organization for Economic Co-Operation Development. <https://stats.oecd.org/> [08.01.2019].

As seen in figure 11 and table 4, both in Turkey and the USA, the unionization rate has declined. Moreover, in the USA, there is a striking observation regarding the membership of a union. It is stated that the median income of those who are a member of a union is higher than those who are not a member of a union (Dunn, Walker, 2016, 7). This can be seen in figure 14.

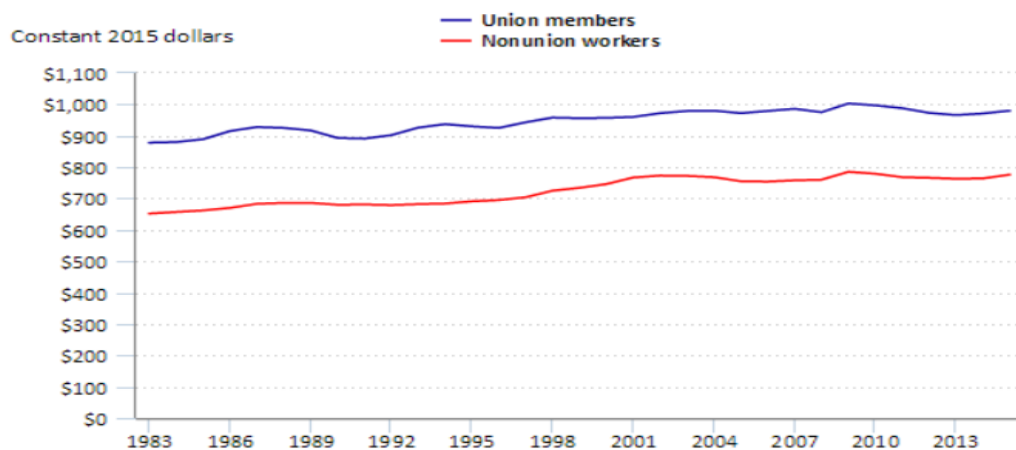


Figure 14: Median Weekly Earnings by Union Status

Dunn, Megan, James Walker. 2016. Union Membership in the United States. Bureau of Labor Statistics. <https://www.bls.gov/spotlight/2016/union-membership-in-the-united-states/pdf/union-membership-in-the-united-states.pdf> . [09.02.2019]

Besides that, it is claimed that in advanced economies, half of the increase in the Gini of net income is attributed to decline in unionization rate (ILO et. al., 2015, 21)

Other than unionization, researchers have shown that other market institutions such as minimum wages, employment protection and unemployment benefits also have an impact on inequality. Besides that, the emergence of less secure employment types, such as part time, casual temporary, have also been related to increased inequality (ILO et. al, 2015, 21-22)

2.2.1.3. Increase in Income Inequality

As it is shown and mentioned before, during globalization era, income inequality in most of regions income inequality is observed to rise. In this section, the other indicators and developments regarding income inequality will be mentioned and possible reasons of rising income inequality will be demonstrated.

First of all, because of the high and increasing income inequality in the countries, 1% of the richest individuals in the world have grown twice as much as individuals with 50% since 1980. Income growth, for individuals with incomes between the global bottom 50% and top 1% groups, has been stagnant or even zero. This includes all North American and European lower and middle income groups. This process can be seen in figure 15 (Alvaredo et. al., 2018, 11).

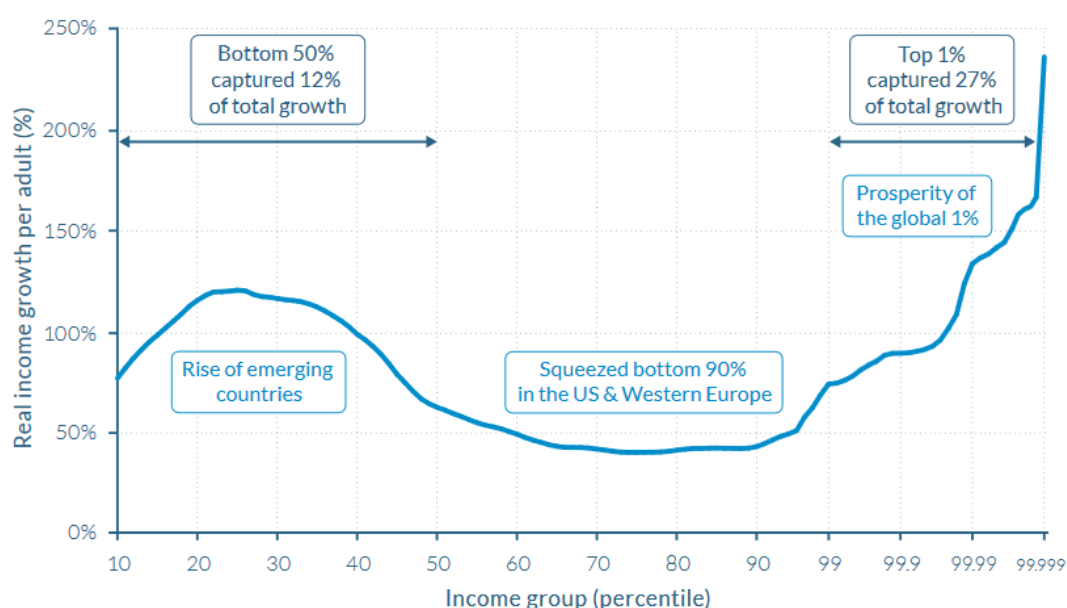


Figure 15: Elephant Curve of Global Inequality and Growth, 1980-2016

Alvaredo, Facundo, Lucas Chancel, Thomas Piketty, Emmanuel Saez, Gabriel Zucman. 2018. World Inequality Report 2018.

Note: Values are net of inflation.

There is a variety of explanations of this increase in income inequality during globalization era. Firstly, as mentioned earlier, according to Stolper Samuelson theorem, trade between labor abundant and capital abundant countries induce an increase in income inequality in developed countries since the return of unskilled labor would fall. The second reason is, an increase in capital flows and complementarity of capital with skilled labor. A fundamental assumption of the Stolper Samuelson theorem is that capital and labor are perfectly mobile in the country as immobile internationally. However, that assumption is inconsistent with the adoption of outward policies in developing countries. If globalization brings about increase in capital inflows into developing countries, and if the utilization of capital requires the use of a higher share of skilled labor, the increase in capital inflow causes higher demand of skilled labor. Thereby, income inequality increases (Goldberg, Pavcnik, 2007, 32). Third reason is outsourcing. The production of the final products can be divided into intermediate stages and the intermediate inputs vary according to the intensity of the skills. The firm may find it appropriate to outsource some of the production stages to cost minimizing locations abroad. With the abolition of capital controls, trade

liberalization offers companies new opportunities to shift some of these intermediate goods from developed countries to developing countries. While the products shifted to the developing countries are considered as intense unskilled labor from a developed country's point of view, they are considered to be highly skilled labor from a developing country's point of view. As a result, outsourcing leads to an increase in the skill premium in both developing and developed countries (Goldberg, Pavcnik, 31).

The fourth reason why globalization exacerbates income inequality is financial globalization and financial deepening. The possible explanation of why financial globalization provides unequal income distribution suggests that the concentration of foreign assets and liabilities in relatively high-skill-intensive sectors, which in turn raises the demand and wages of higher skilled workers. In addition, foreign direct investments may trigger a skill-specific technological change, which leads to an increase in the demand of higher skilled workers. (Dabla-Norris et.al., 2015, 20). Besides that, in advanced economies, outward foreign direct investment increases income inequality by means of reducing employment opportunities in relatively lower skill sectors (Jaumotte, Lall, Papageorgiou, 2013, 20).

The fifth reason which may have increased income inequality is skill biased technological change. For some scholars such as Bhagwati, skill biased technological change is the reason, rather than trade, why skill premium has increased (Bhagwati, 2004, 122-132). To support this idea why trade does not increase inequality, they assert that in the canonical factor endowments model, the skill premium rises only if there is a corresponding reduction in the price of low skill intensive goods. As it is challenging to observe remarkable changes in the relative price for the decade of the 1980s, during which most of the wage effects occurred, trade could not have played any significant role in increasing income inequality (Rodrik, 1997, 14).

However, there are some objections to the idea that skill biased technological change is the driven force of increasing income inequality. It is claimed that skill biased technological change in the North, stems from import competition from the South (Rodrik, 1997, 15). Besides that, it is claimed that in Anglo Saxon countries, the rise of the supermanagers accounts for rising income inequality in such countries. In the 1970s, upper centile's income share is identical across countries. It is ranged from 6 to 8%. However, 30 years later developments are a bit different. Upper centile's share roughly doubled which is now nearly 20%, in Britain and Canada, recently it is 14-

15% and in Australia, it is 9-10%. Given these developments, it is stated that if the rise of supermanagers were a result of skill biased technological change, then it would be difficult to understand why such large differences exist between otherwise quite similar countries (Piketty, 2014, 612-614).

There is also one last factor which may play a role in rising income inequality is that "superstar effect". According to Rosen (1981), an individual who is slightly more talented than other individual earns much more and this leads to large income differentials. The main reason behind that is technological advancements in communication. By means of technological developments, the cost of production does not go up in proportion to the size of a seller's market. Also, there is an imperfect substitution between talented and less talented individual. For instance, if a surgeon is 10 % more successful in saving lives than his or her colleagues, most people would be willing to pay more than a 10% premium for his or her service. Therefore, income distribution is distorted.

However, the notion of "superstar effect" is not accepted by every scholars. According to them, the rising inequality cannot be solely attributed to the "superstar effect". Since, despite going through identical technological changes, CEOs in Germany earns on average half as high as in the USA (there is almost no difference in the effectiveness of the CEOs in both countries.) (Alvaredo et. al., 2018, 257).

Regarding why income inequality is an issue, some economists state that increasing inequality has the potential to hamper growth rates. There are three explanations concerning why rising income inequality hampers growth or decreasing income inequality positively affects on growth. First of all, greater inequality may become unacceptable to voters, hence they would demand high taxes and regulations which are not beneficial for business, all of which may decrease incentives to invest. Besides, distortion in income distribution might induce political instability and social unrest, with harmful effects on growth. Secondly, in case of capital market imperfections, which implies that the capability to invest of individuals depends on their income or wealth level, individuals who earn a lower level of income may not be capable of affording worthwhile investments. For instance, lower income households may opt for leaving full time education, if they cannot afford the fees, although the return of education is high. So, the aggregate output would be lower than in the case of a perfect capital market. Such a view is known as "human capital accumulation theory"

(Cingano, 2014, 10-11). The third explanation is demand oriented. Marginal propensity to consume is believed to decrease as an individual's income rises. Bernstein(2013, 7), from a Keynesian point of view, states that in a country where income inequality decreases, since low income consumers have a higher tendency to consume, consumption expenditure, and thus growth rate rises and this faster growth rate leads to more investments¹ in the economy.

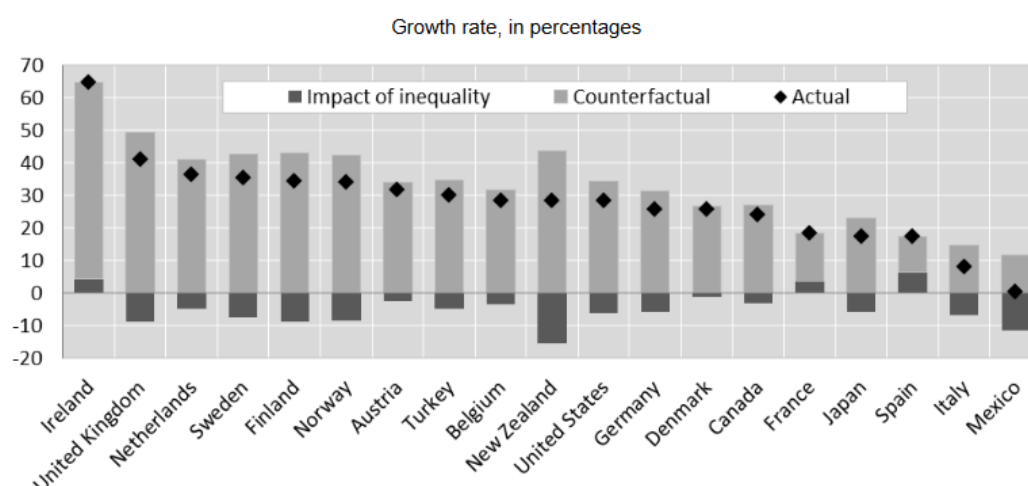


Figure 16: Estimated Consequences of Changes in Inequality on Cumulative Per Capita GDP Growth, 1990-2010

Cingano, Federico. 2014. Trends in Income Inequality and Its Impact on Economic Growth. **OECD Social, Employment and Migration Working Papers**. No.163: 2-64.

Note: “Actual” is the actual growth rate ; “Impact of Inequality” is obtained based on the observed changes in inequality across Organization for Economic Co-Operation Development (OECD) countries (in 1985-2005) and the impact of inequality on growth estimated in analysis carried out by Cingano ; “Counterfactual” the difference “Actual- Impact of Inequality”.

Cingano (2014, 17-18), in his study, estimated that the rise in inequality has an adverse effect on growth. Furthermore, as seen in figure 16, he demonstrated that what would be the growth if countries' inequality level had not changed. According to his study, rising inequality have decreased growth by more than 10 percentages in countries such as Mexico and New Zealand. Besides, had income inequality not gone up in countries like the United States, the United Kingdom, Sweden, Finland and Norway, the growth would have been more than one fifth higher. On the other hand, greater income

¹ Bernstein(2003, 7) states that Keynesian accelerator models presume that investment is a function of output growth and thereby consumption

distribution helped increase in GDP per capita in Spain, France, and Ireland prior to the crisis.

Cingano (2014, 24-25), pays special attention to human capital accumulation theory. In his study, he tries to prove that increasing income inequality decreases the educational outcomes of individuals from low socio economic backgrounds yet it does not affect those of medium and high background individuals. He proves it as well (see figure 17). For example, the probability of tertiary education decreases with inequality, but only in the low PEB (parental educational background) individuals.

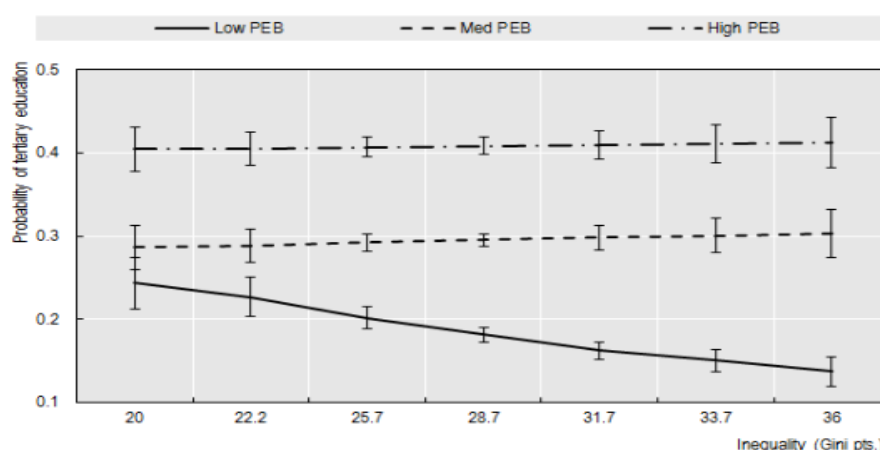


Figure 17: Average Probability of Tertiary Education by Parental Educational Background and Inequality

Cingano, Federico. 2014. Trends in Income Inequality and Its Impact on Economic Growth. **OECD Social, Employment and Migration Working Papers**. No.163: 2-64.

Furthermore, Cingano (2014, 27) points out that skills of those who have low background adversely effected by rising income inequality in the figure 18 it can be seen.

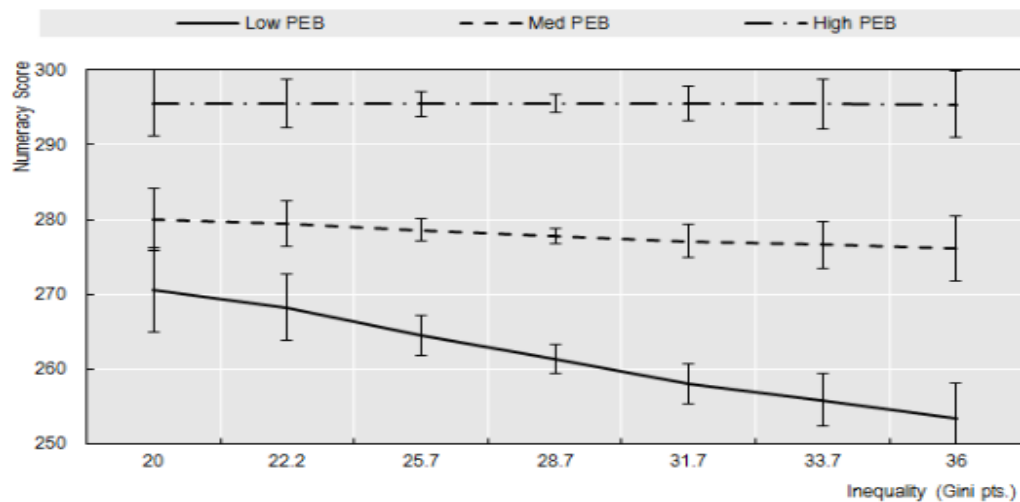


Figure 18: Average Numeracy Score by Parental Educational Background and Inequality

Cingano, Federico. 2014. Trends in Income Inequality and Its Impact on Economic Growth. **OECD Social, Employment and Migration Working Papers**. No.163: 2-64.

Cingano (2014, 27) also reveals that the probability of not being employed, on average, over the working life of those who have low background increases with rising income inequality. Furthermore, individuals with a high background appear to be not impacted. This can be seen in figure 19.

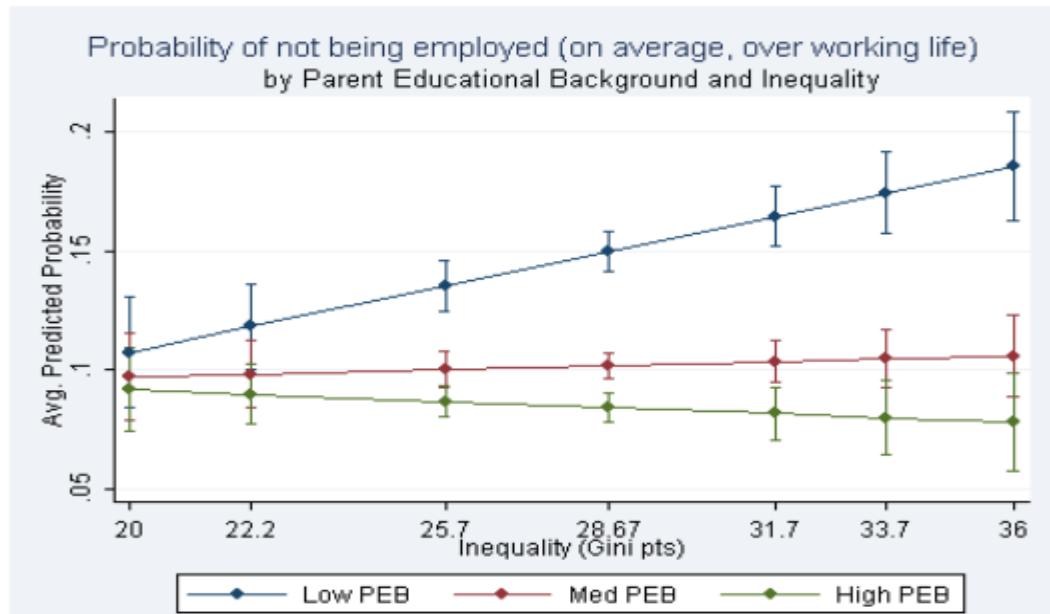


Figure 19: Probability of Not Being Employed over Working Life

Cingano, Federico. 2014. Trends in Income Inequality and Its Impact on Economic Growth. **OECD Social, Employment and Migration Working Papers**. No.163: 2-64, 48

2.2.1.4. Adverse Effects of Capital Mobility

After the 1980s, in the majority of countries, capital account liberalization took place. For example, it happened in 1989 in Turkey. In this section, first of all, arguments support capital account liberalization will be presented and then arguments that oppose capital account liberalization will be mentioned.

2.2.1.4.1. Neoclassical Economic Efficiency Arguments

The first neoclassical economy efficiency argument is concerned with both stocks and flow. On the stock side, capital mobility ameliorates portfolio investment outcomes by means of increasing the scale of investment opportunities thus enhancing the returns available to savers and increasing possibilities for diversification. That leads to a rise in efficiency of portfolios enhances welfare. However, as wealth is highly concentrated, all benefit goes to wealthy individuals (Palley, 2009, 17-18).

The second efficiency argument for capital mobility is that it yields a host of collateral benefits. According to this argument, increasing financial openness can encourage the development of the financial sector, prevents loose macroeconomic policies, create efficiency gains among domestic firms through exposing them to competition from

foreign firms and unleash forces that cause the better government and corporate governance. Such collateral benefits may increase efficiency and, total factor growth. (Kose et. al., 2007).

However, Rodrik (2011, 124) does not agree with financial openness brings about discipline on macroeconomic policies. Rather, he suggests that financial globalization weakens the discipline on macroeconomic policies. According to him, by means of accessing international finance, profligate governments are able to run larger deficits for longer than a situation in which they only rely on the domestic creditor. Turkey sets a good example. After Turkey removed its controls on capital flow, the Turkish government found a ready source of cheap finance despite poor macroeconomic management. Public debt² was increasing exponentially and inflation was high. Yet, domestic commercial banks would borrow abroad and use that money to buy government bonds, and they were profiting from the interest margin. However, when "sudden stop" in capital inflows occurred, Turkey was severely affected and the country went through its worst decline in decades. It is also asserted that without financial globalization, Turkey would have been compelled to put its fiscal house in order a lot sooner than in 2001, and it would have cost the country much less.

Third and the most important efficiency claim is that capital mobility increases national saving and investment, hence increasing capital accumulation and economic growth. This argument is based on loanable funds theory which states that interest rate is determined by the supply of loanable funds and demand of loanable funds (Palley, 2009, 18). Analytically, the effects of capital mobility can be explained as follows. Prior to the capital market opening outcomes in the loanable funds market are determined by the following equations::

$$y = y^* \tag{1}$$

$$S = I \tag{2}$$

$$S = S(i, y, e) + [T - G] \tag{3}$$

(Increase in an interest rate and output result in an increase in saving whereas an increase in exchange rate either decreases or increases saving)

² As a ratio of GNP, public sector debt requirement was 5.2, 8.8, 7.6, 9.2, 15.1, 11.9, 16.5, and 12.5% in 1995, 1996, 1997, 1998, 1999, 2000, and 2001 respectively (Cizre, Yeldan, 2005, 397).

$$I = I(i, y, e) \quad (4)$$

(Increase in an interest rate and exchange rate reduces investment while a rise in output enhances investment)

$$X(e, y^f) = M(i, y, e) \quad (5)$$

(When exchange rate increases, export decreases but import increases and increase in foreign output leads to rise in export and increase in interest rate causes import to decrease and increase in output induce a rise in import.)

$$e = p^f/p \text{ (Absolute Purchasing Power Parity)} \quad (6)$$

Where y = output, y^* = full employment, S = real domestic saving, T = lump-sum taxes, G = government spending, I = real domestic investment, X = exports, M = imports, i = interest rate, e = exchange rate (foreign currency per unit of domestic currency) , p^f = foreign price level, and p = domestic price level.

Equation (1) determines the output level, that is equal to the full employment level of output. Equation (2) is the loanable funds market clearing condition. Equation (3) determines national saving which is the total of public and private saving. Equation (4) is a domestic investment function. Equation (5) is the trade balance condition, equation (6) determines the exchange rate. The logic of this model is; the level of output is equal to the natural level of output which is determined by capital stock, the state of technology and, the labor supply. The loanable funds markets determines the interest rate that equalizes saving and investment. As there is no capital mobility, exports must equal to imports. Such equation is provided by price level adjustment which determine a real exchange rate consistent with trade balance (Palley, 2009, 19).

After capital opening, the loanable funds market is described by:

$$y = y^* \quad (7)$$

$$e = p^f/p \quad (8)$$

$$i = i^f \quad (9)$$

$$S = S(i^f, y, e) + [T - G] = S' \quad (10)$$

$$I = I(i^f, y, e) + X = I' \quad (11)$$

$$KM = I' - S' \quad (12)$$

where i^f = global interest rate, and KM = capital inflow. If I' exceeds S' capital inflow occurs and if S' exceeds I' capital outflow takes place. In the economy where I' exceeds S' means that the economy allocates more resources to investment and exports than saving. This excessive demand is provided through imports that are financed with capital inflows (Palley, 2009, 19).

The effect of capital mobility is that it equalizes the domestic interest rate to global interest rate. In developing economies there is a limited saving, however, demand for investment is strong due to the shortage of capital. In such economies, the domestic interest rate exceeds the global interest rate due to insufficient capital and saving. Thanks to the capital market opening, developing countries obtain an opportunity to make use of global saving and reduce the interest rate. The consequence of capital opening in such economies is capital inflows that amplify investment, decrease domestic saving. The country is in a better situation, compared to the situation in which there is no capital opening since capital opening accelerates capital accumulation while smoothing intertemporal consumption, enabling higher consumption in today is repaid with returns from boosted investment (Palley, 2009, 19).

The effect of capital opening in developed economies can be described as the following. In this case, the global interest rate is higher than domestic interest rate since in such economies capital is relatively abundant. As a result, net capital outflow occurs. Domestic investment falls, but domestic saving rises since the higher interest rate stimulates domestic saving but discourages domestic investment. Instead, investments are carried out in developing countries where marginal efficiency of investment is higher. The country is in better situation than a situation in which there is no capital opening since it would be able to access higher returns by investing in developing countries. Consumption today decreases but in the future it will increase due to increase in income which stems from higher returns on foreign investment (Palley, 2009, 20).

2.2.1.4.2. Neo Liberal Political Economy Arguments

First neo liberal political economy argument is Hayekian styled. It is stated that the free market economy is necessary for individual freedom. Hayek (2001, 91-104), in his famous book called “the Road to Serfdom”, states that control on economic activity has a negative impact on individual freedom. He states individual freedom is linked with economic freedom. In a situation where economic activity is controlled,

individuals no longer have freedom of choice as, in this case, individuals are not the ones who decide what they produce or consume and all this decision are made by government. So, in the end, freedom of choice is adversely affected by control on economic activity which is carried out by the government. Also, the impact of economic control was described by Hayek (2001) in his words as the following (Hayek, 2001, 95-96):

“The extent of the control over all life that economic control confers is nowhere better illustrated than in the field of foreign exchanges. Nothing would at first seem to affect private life less than a state control of the dealings in foreign exchange, and most people will regard its introduction with complete indifference. Yet the experience of most Continental countries has taught thoughtful people to regard this step as the decisive advance on the path to totalitarianism and the suppression of individual liberty. It is, in fact, the complete delivery of the individual to the tyranny of the state, the final suppression of all means of escape—not merely for the rich but for everybody.”

Second argument is that controls create rent seeking activity that costs so much. Reason why controls cause negative outcomes are: Firstly, resources would be spent and wasted, from the standpoint of society, since agents in order to get economic benefits, they try to increase their influence over the government. Secondly, such rent seeking activity may lead to corruption in government and contribute to bad policy (Krueger, 1974,291-293).

However, there are some arguments which oppose to capital account liberalization. They will be mentioned in following subtitles.

2.2.1.4.3. Keynesian Arguments

According to the Keynesian argument, one of the fundamental problems with free capital mobility is that unfettered capital flows distort financial stability and macroeconomic equilibrium such as full employment and price stability (Rodrik,2011, 95). In addition, with the combination of the fixed exchange rate and free capital mobility, a country give up its control on its monetary policy as stated in the monetary trilemma for open economies (Krugman, Obstfeld, Melitz, 2015, 269). This can be seen in figure 20. For example, in a case of a combination of capital mobility and fixed exchange rate, if other countries have a tight monetary policy and high interest rates, a country has no choices but follow the same policy, otherwise, capital outflow occurs. Besides if a country wanted tighter credit than in other countries, due to the higher interest rate at home massive inflow of foreign money take place and which leave the

country flush with credit and undo the effects of the tight monetary policy (Rodrik, 2011, 96).

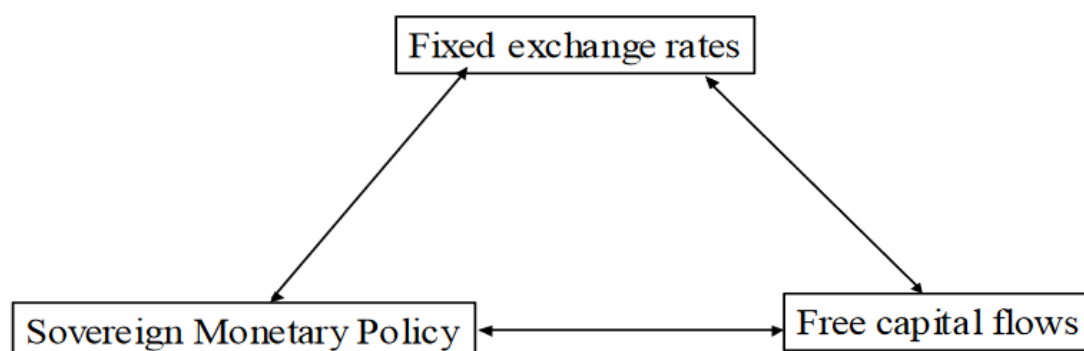


Figure 20: Monetary Trilemma for Open Economies

Palley, Thomas I. 2009. Rethinking the Economics of Capital Mobility and Capital Controls. **Brazilian Journal of Political Economy**. Vol. 29. No.3: 15-34, 25

Note: Monetary trilemma suggests that exchange rate stability, monetary policy oriented toward domestic goals and freedom of international capital movements cannot coexist together. At most, two of them can coexist together (Krugman, Obstfeld, Melitz, 2015, 269).

Also, in the fixed exchange rate regime, this argument states that there was no reason for countries to have identical monetary policies. For instance, a country, that has an unemployment problem, might need low interest rate. Yet, capital outflows forces that country to set its domestic interest rate higher, in order to protect the exchange rate, than an interest rate which provides full employment in order to protect the exchange rate. So, in Keynes' perspective, it is a problem as countries are forced to ignore domestic obligations (Palley, 2009, 25; Rodrik, 2011, 97). This “Keynes Problem” is demonstrated in figure 21.



Note: i^y is the interest rate needed to secure full employment output (y^T). i^e is the interest rate needed to maintain the fixed exchange rate (e^T). i^f is the foreign interest rate.

Moreover, there is an additional problem regarding capital openness. When some countries liberalize their capital account while others do not, a problem may arise. With the help of capital controls, some countries may keep their currency's value low despite having current account surpluses (Gochoco-Bautista, Rhee, 2013, 3). As a result, countries with capital control may experience improvement in their trade balance and rise in employment level. A policy that cause mentioned situation can be called as "beggar thy neighbor" policy as countries with capital control go through improvement in their economic performances while other countries suffer from such policy (Robinson, 1937, 156-157). In the literature, it is asserted that China implement such policy, as with the help of capital control, China is able to keep their currency's value low. Such policy brings about negative outcomes for other countries. For example, Krugman (2009) states that such policy of China leads to a decrease in employment levels in the USA.

2.2.1.4.4. The New Keynesian Approach

This approach attributes financial crises to market failures (Balseven, 2009, 608). According to Stiglitz, financial markets contain lack of equal information and uncertainty (Stiglitz, 1999, 25). This lack of equal information creates two problems which are moral hazard (occurs after the transaction) and adverse selection (occurs before the transaction) (Kirmanoğlu, 2009, 114). In financial markets, moral hazard and adverse selection can be defined as the following. Adverse selection takes place when potential borrowers are the ones, who have a lower possibility to pay back the debt and most actively seek out a loan and hence most likely to be selected. Moral hazard is the risk that, after taking out loan, the borrower may engage in activities through which he or she is unlikely to pay back the debt. Such problems may induce credit rationing (Mishkin, 2004, 174-566). Then, Stiglitz (1999, 25) claims that economies with imperfect information are not Pareto Efficient. He suggests that there are some interventions that make all individuals better off. All in all, there are two possible economic justifications for such interventions. Firstly, the social risk of investment is not equal to private risk. Just as pollution imposes greater risks on society than are borne by the polluter alone. Secondly, the market is not pricing private risk efficiently. In the short run, the market participants can focus excessively on the actions of other market participants. Consequently, therefore, market participants sometimes act with irrational motives. For these justifications mentioned above, Stiglitz supports taxes or regulations aimed at capital flows (Stiglitz, 1999, 25-26).

2.2.1.4.5. Capital Mobility and Its Effect on Policy Making

By means of an increase in capital mobility, capital has the power to discipline government, change policy and structure of the economy in favor of capital (Crotty, Epstein, 130 -134). For example, the corporate tax rate has declined over the years in the majority of OECD countries that can be seen in table 5.

Table 5: Corporate Tax Rates in OECD

Countries	2000	2005	2008	2010	2011	2015	2018
Portugal	35,2	27,5	26,5	26,5	28,5	29,5	31,5
United Kingdom	30	30	28	28	26	20	19
Israel	36	34	27	25	24	26,5	23
Denmark	32	28	25	25	25	23,5	22

Table 5 - continue

New Zealand	33	33	30	30	28	28	28
Sweden	28	28	28	26,3	26,3	22	22
Belgium	40,17	33,99	33,99	33,99	33,99	33,99	29,58
Germany	51,612	38,363	29,405	29,475	29,545	29,79	29,825
Japan	40,87	39,54	39,54	39,54	39,54	32,11	29,74
Norway	28	28	28	28	28	27	23
Iceland	30	18	15	18	20	20	20
Canada	42,43	34,18	31,4	29,4	27,7	26,7	26,8
Mexico	35	30	28	30	30	30	30
Slovak Republic	29	19	19	19	19	22	21
Australia	34	30	30	30	30	30	30
Lithuania	24	15	15	15	15	15	15
Netherlands	35	31,5	25,5	25,5	25	25	25
Estonia	26	24	21	21	21	20	20
Switzerland	24,925	21,33	21,174	21,174	21,174	21,149	21,149
Greece	40	32	25	24	20	29	29
Korea Rep.	30,8	27,5	27,5	24,2	24,2	24,2	27,5
United States	39,34	39,29	39,251	39,206	39,193	38,998	25,839
Finland	29	26	26	26	26	20	20
Ireland	24	12,5	12,5	12,5	12,5	12,5	12,5
Spain	35	35	30	30	30	28	25
France	37,763	34,95	34,43	34,43	36,096	37,996	34,43
Italy	41,25	37,25	31,4	31,4	31,4	31,293	27,806
Turkey	33	30	20	20	20	20	22
Slovenia	25	25	22	20	20	17	19
Hungary	18	16	20	19	19	19	9
Czech Republic	31	26	21	19	19	19	19
Luxembourg	37,45	30,38	29,63	28,59	28,8	29,22	26,01
Chile	15	17	17	17	20	22,5	25
Latvia	25	15	15	15	15	15	20
Poland	30	19	19	19	19	19	19

Organization for Economic Co-Operation Development. <https://stats.oecd.org/> [08.01.2019].

Obtain credibility from international financial markets has become a important goal due to encouraging inflows of foreign capital on reasoanble terms that could finance sustained development and discouraging capital flight would be possible. To acquire credibility, countries implement market friendly policies such as focusing on reduce

inflation and restoring fiscal order (Palley, 2001, 113). Countries which implement non neoliberal economic policies face capital flight or withdrawal of financial aids (Ilene, 2000, 13). For this reason, countries can not determine their policy freely as much as they did. For example, for this reason scholars believe that demise of the welfare state, particularly in less developing countries³, is a consequence of the process of globalization for two reasons. First of all, generous welfare benefits are not deemed as good market disciplining devices on labor. Secondly, since capital is footloose, globalization has made it hard to compensate welfare spending through taxation on capital (Rudra, 2002, 414).

2.2.1.4.6. Capital Mobility and Crises

The relationship between capital mobility and crises is one of the most controversial issues. Some economists are against the idea of free capital mobility, even though they are a firm supporter of free trade and globalization. For instance, Bhagwati (1998) supports free trade but is against free capital mobility. Bhagwati (1998, 9) asserts that countries with free capital mobility are prone to crisis and give up their political independence. Bhagwati (1998, 8) states that crises took place in Asia is related to capital account liberalization; total private capital inflows to Malaysia, South Korea, Thailand, and the Philippines jumped from \$41 billion in 1994 to \$93 billion in 1996. However, the situation suddenly changed to an outflow of \$12 billion. In addition, he suggests that gains of capital account liberalization, such as stimulating growth rate, are negligible. For example, countries like China and Japan had remarkable growth without capital account liberalization (Bhagwati, 1998, 10).

According to Rodrik (2017, 10), there was a close relationship between financial globalization and financial crises as well. As seen in figure 22, financial crises and capital mobility move together.

³ The reason why demise of the welfare is more prevalent for less developing country is that, according to her, labor in less developing countries in weak bargaining position as the majority of the population of low skilled workers faces collective action problems that are exacerbated by large pools of surplus labor. In addition, unlike developing countries, labor in less developing countries does not have national labor market institutions which can ease that problem and strengthen workers' bargaining power (Rudra, 2002, 435-436).

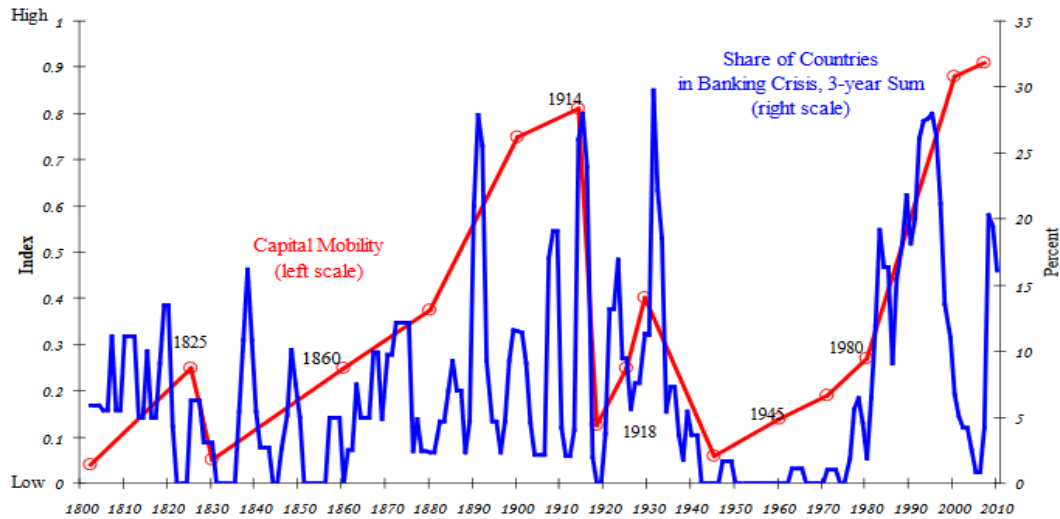


Figure 22: Capital Mobility and Financial Crises

Reinhart, Carmen, Kenneth Rogoff. 2012. Causes of Financial Crises Past and Present: The Role of the This Time is Different Syndrome. **MPRA Paper**. No.51258: 1-15, 6

Erdem (2007, 145), also in her study demonstrated that with the capital account liberalization, hot money flows increased considerably relatively and absolutely. In Turkey, where capital account was liberalized in 1989, compared to 1980s, the hot money inflows by non residents increased substantially in 1990s. According to Erdem, in the 1980s, it was 2,5\$ billion and in 1990s it was 14.5\$ billion. In the period between 1990- 1999, the share of the hot money inflows by non residents in net capital inflows grew over 10 %, and over the 1980-1993 and in the 1990-1993 period, which is considered a boom period, it reached 40%. Besides, according to Erdem (2007, 146), when such hot money inflows turn into outflows, they trigger financial crises. It also happened in Turkey in 1994 which also can be observable on the table below. According to Yeldan (2004, 139), that increased hot money flows created uncertainty and instability in reel production and investment decisions.

Table 6: Hot Money Flows in Turkey

Turkey	Years	STI	STO	EO	STOE	NSF	NSFE
Cumulative	1980-1989	2454	-2697	2910	213	-243	2667

Table 6 - continue

Cumulative	1990-1999	14630	-11375	-3284	-14659	3255	-29
Cumulative	1990-2003	12698	-13045	-2395	-15440	-347	-2742
Cumulative	1989-1993	9897	-9746	-1963	-11709	151	-1812
Cumulative	1990-1993	9694	-9346	-2932	-12278	318	-2614
Cumulative	1994-1996	-1374	2772	2339	5111	1398	3737
	1993	4478	-3242	-2222	-5464	1236	-2614
	1994	-5913	2446	1766	4212	-3467	3737
Minus	1994-1993	-10391	5688	3988	9676	-4703	-986

Erdem, Nilgün. 2007, A “ Hot” Debate: Financial Crises in Turkey, Mexico and South Korea. **Neoliberal Globalization as New Imperialism: Case Studies on Reconstruction of the Periphery.** ed. Ahmet H.Köse, Fikret Şenses, Erineç Yeldan New York: Nova Science Publishers: 129-151, 144

Note: STI is the hot money inflows by non residents,STO is hot money outflows by the residents, EO is the non-recorded capital flows by residents, STOE is short term outflows, including non recorded outflows, NSF is net short term flows, and NSFE is net short term flowsi including non recorded flows.

2.2.2. Positive Outcomes of Globalization

So far, negative outcomes of globalization have been focused on. However, as mentioned before, some scholars, who are pro globalization, believe that globalization leads to democratization, rise in growth rates and poverty alleviation. In the following subsections, how globalization has led to such possible consequences will be argued.

2.2.2.1. Democracy

According to Bhagwati (2004, 93), globalization has had a positive impact on democracy. It is stated that at first glance globalization has constrained democracy by

leading to demise of nation states meanwhile it has enhanced democracy by encouraging countries to leave their authoritarian policies and adopt democratic policies. This situation is called a paradox. However, it is suggested that globalization's positive impact on democracy outweighs the negative impact on democracy. It is claimed that globalization can promote democracy both directly and indirectly. Rural farmers, by means of modern information, take their products directly to the market. That leads to erosion of control on rural farmers by the traditionally hegemonic group. In turn, rural farmers have become an independent actor in the political area. This is how globalization impact directly. Indirect link is related to economic development (Bhagwati, 2004, 92-105). Indices of economic developments are urbanization, degree of industrialization, the average wealth and, education (Lipset, 1959, 75). According to Lipset(1959, 83), economic development brings about democracy. For instance, for those who are belonged to the lower class, extremist ideologies become less attractive through a rise in economic development. In addition, rise in wealth also affects the political role of the middle class by means of increasing the number of people who belong to the middle class, and a large middle class plays a mitigating role in moderating conflict as it is able to reward moderate and penalize extremist groups (Lipset, 1959,83).

Maxfield (2000, 96) states that financial liberalization may have a positive impact on democracy. She states that financial may strengthen democracy. First of all, financial liberalization prevents economic concentrations of economic power and may lessen rent seeking activities. In addition, Maxfield (2000, 103) claims that in the pre liberalization era, the majority of North-South capital flows were commercial bank loans which typically involved the government of the developing countries, such situation bolstered semi authoritarian regimes in the developing countries as money flowed to the government and to large companies allied with the government. However, this situation changed with the process of liberalization. It is stated that after liberalization, flows resulting from stock or bond purchases became more important (Maxfield, 2000, 103). Maxfield (2000, 103-104) also states that a shift from public to private ownership as a result of capital market development may cause enhance in demand for transparency. Enhance in demand for transparency may contribute to the process of democratization.

Rudra (2005,704), seeks the reasons behind a decline in democratic rights in 30% of the less developing countries whereas in 70% of the less developing countries democratic rights increased. Rudra (2005, 707) pays special attention to the term social spending. Globalization generates greater economic risks, uncertainty, diminishing elite control over the economy and affecting both private sector loyalty⁴ and the bulk of society. The consequence of this is social instability and alongside waning elite legitimacy. In fear of losing their privileges, elites may choose two policies. The first policy they may carry out is to implement undemocratic, repressive policies. Second policy they may implement is to provide welfare spending to compensate the injured majority, the masses would have a less tendency to put pressure on the elite by means of politics (Rudra, 2005, 708-709). Rudra (2005, 707-710) states that some countries may implement repressive policies for two reasons. The first possible reason behind such phenomenon is that, with the process of globalization, countries pay more attention to their fiscal discipline and then elites in such countries may reduce welfare spending in order to gain investors' trust. Secondly, countries may implement more repressive policies since if a country already has a high level of welfare spending in pre globalization era, and increasing social spending may place a considerable amount of stress on elites' assets.

2.2.2.2. Rise in Growth Rates

High growth rates in the late 19th century are usually associated with protection. Some scholars state that protectionism brings about high growth rate (Bhagwati, 2004, 60). However, Irwin (2001, 15) refutes the idea that protectionism is the factor which brings high growth rates in the late 19th century in America. Irwin(2001, 23) denotes that tariffs could depress capital accumulation since it makes prices of domestic and foreign capital goods higher. Irwin (2001, 27) also demonstrates that blossoming of the tinplate industry cannot be stemmed from protectionism. At first, place, that failing to emerge of industry stemmed from the fact that higher levels of tariffs made iron and steel intermediate inputs expensive. However, it succeeded after prices of steel and intermediate input fell to international levels, which is not related to high tariffs.

⁴ Private sector's loyalty may diminish as they are no longer dependent upon the government to secure privileges and provide rents. As economic liberalization takes place, their main goal is to attract global capital and optimize global market opportunities (Rudra,2005, 709).

According to traditional trade theory, if each nation specializes in production of commodity in which they have a comparative advantage, nations that involved trade get benefit from trade since with the same input, they can provide more commodities, so world output will be greater (Kazgan, 2014, 107-108; Salvatore, 2011, 363). To clarify, suppose that the USA can produce 6 wheats per hour and 4 clothes per hour whereas the UK can produce 1 wheat per hour and 2 clothes. In this example, the UK should specialize in producing cloth as the UK's have a smaller absolute disadvantage in cloth and thus, they have a comparative advantage in cloth. Also, the USA has a comparative advantage in wheat as their absolute advantage in wheat is greater than in cloth. Besides, suppose that the USA exchanges 6 wheats for 6 clothes. Then the USA would gain 2 clothes as if it was not for trade they can produce 4 clothes by themselves or they save 0.5 hour of labor time. 6 wheats that the UK receives from the USA requires six hours to produce the same amount of wheats in the UK. Instead of using six hours to produce wheats, The UK could use these six hours to produce 12 clothes and then trade 6 of them for 6 clothes. So, in the end, they would gain 6 clothes or save 3 hours of labor time (Salvatore, 2011, 38-39).

In the literature, some studies support the idea that free trade boosts growth rates. For example, Dollar and Kraay (2001) demonstrate that countries who liberalized their trade account experienced high growth rates, such as Argentina, and China.

According to Bhagwati (2004, 62), there are some benefits of trade liberalization. First of all, when trade enlarges markets, in production, economies of scale can be exploited. This is especially true for small countries. For this reason, countries such as Kenya and Uganda, which had high tariffs in the 1960s, found the cost of their protection high, and each country produced several units. So they decided to become an East African Common Market, so they could specialize among themselves, and together they could produce at lower cost for the larger market. Secondly, freer trade enhanced competition, which raises the quality of products country produces. So did gains. For example, when India has high tariffs, Indian cars were suffered from lack of quality, due to lack of competition. Thirdly, Balasubramanyam, Salisu, and Sapford (1996) denote that foreign direct investments will be bigger in countries implement outward oriented than in countries implement inward looking or import substitution strategy since in countries implement inward looking trade strategy, foreign direct investments would be constrained by the domestic market.

According to some scholars, there is a positive association between financial globalization, financial development, and growth. According to Mishkin (2009, 154), financial globalization can stimulate financial development. Mishkin (2009, 154) states that the entry of foreign capital and institutions cause domestic financial institutions to lose customers. In order to survive, domestic financial institutions need to find new customers and lend to them profitably. However, to accomplish this, they need to have information to differentiate good credits from bad ones and monitor borrowers to make sure they do not take excessive risks. Therefore, they realize they need to support institutional reforms such as disclosure requirements. There is also another benefit of financial globalization. Since foreign capital could enter domestic financial markets freely, the supply of funds increased. As a result of that, the price of capital decreased and investments rose which encouraged economic growth. Besides, with the help of the availability of funds, the competition went up as well (Mishkin, 2009, 154-155).

King and Levine (1993) in his study found that financial development fosters economic growth. King and Levine (1993) state that risk diversification can promote innovative activities. According to them, agents are trying to make technological advances to gain a profitable market niche. However, it is risky to engage in innovative activities. Having a diversified portfolio of innovative activities may reduce the risk and then encourage investors to invest in such activities. Therefore, developments in technology can occur and economic growth increases.

2.2.2.3. Poverty Alleviation

Fischer (2003, 7-8) and some other economists stated that poverty has decreased due to the increasing growth rates in the globalization period. In particular, high growth rates and the decline in poverty in China and India have a big role concerning the decline in poverty in the world. Fischer (2003, 8) suggests that both of these countries achieved that by means of pro globalization policies. That being said, it does not mean that every detail in Washington Consensus is followed by China and India. Bhagwati and Srinivasan (2002, 180) suggest that free trade is beneficial for the poor in developing countries since these countries have a comparative advantage in producing goods with unskilled labor; therefore demand of such labor increases. So does their wage. Besides, according to them, trade is beneficial for also another reason. The

reason is that if a developing country wishes to maintain an export promoting strategy, it will have to maintain macroeconomic stability since, for example, low inflation is an important matter for such a country in order to stay competitive. Since poor people are vulnerable to inflation, open market and free trade policies are beneficial for them. Financial development may also reduce poverty. With better access to finance, poor people may become entrepreneurs and as a consequence of this, their income increases and then poverty reduces (World Bank, 2008, 100-105). Claessens and Perotti (2005) are economists who pay special attention to the importance of access to finance. Claessens and Perotti (2005, 24-28) claim that when financial liberalization occurs in a country in which unequal distribution of economic and political power exists, the poor are not likely to attain the benefits of the liberalization. To clarify, the poor in a country may not reach access to finance and one of the potential reasons for that is financial institutions may be reluctant to provide small scale credits as fixed cost of providing such credits are high (Claessens, Perotti, 2007, 756). Also, the unequal distribution of political power may have an adverse effect on the poor's access to finance as the lenders may favor politically connected firms. Pakistan can be shown as an example of this situation (Claessens, Perotti, 2005, 28).

Harrison (2006) has a different approach on this issue and states that the individuals, who earn lower levels of income, in the countries with an abundance of unskilled labor do not always get benefits of globalization since labor is not mobile as Heckscher Ohlin theorem predicts. For acquiring benefits of international trade and of comparative advantage, labor needs to be able to move out of contracting sectors and into expanding ones. Harrison (2006, 5-6) suggests there are countries that benefit from rising capital flow but when financial crises occur, poor are likely the ones who bear the burden. For instance, after currency crises, the poverty rate increased by 50%. Harrison (2006, 5) demonstrates that poor can get benefit from globalization as long as globalization is accompanied by complementary policies. To clarify, countries that liberalize their capital accounts should establish institutions on which can be relied and implement macroeconomic stabilization policies. For example, in Colombia, enhance in the level of an export level has been related to a rise in compliance with labor legislation and a reduction in poverty level. In addition, Harrison (2006, 5) pays special attention to the social safety net and stated that if poor farmers in Mexico had not

received income support from the state, and their real incomes would be halved in the 1990s.

3. POVERTY

In this chapter, some definitions regarding poverty will be provided. Along with that measuring methods of poverty and statistical and conceptual problems in absolute poverty and alternative approaches and objections to absolute poverty will be argued.

3.1. Absolute Poverty

Absolute poverty is one of the main classifications regarding poverty. Absolute poverty is a condition in which people do not have the minimum level of income to meet the basic physical needs of food, clothing, and shelter to ensure continued survival (Todaro, Smith, 2014, 62).

is stated that, since quantification of income and consumption expenditure are easy, they are widely used for identifying poverty line. If the poverty line is determined by based on consumption expenditure approach, expenditures, in order to gain a minimum amount of calories to survive, should be calculated at first. Then, those who do not earn enough to gain a minimum amount of calories to stay alive are considered poor. This kind of approach is commonly used for countries in which malnutrition is prevalent (Şenses, 2014, 63). For example, in India, the poverty line was defined as the per capita monthly expenditure of Rs 49.09 in rural areas and Rs 56.64 in urban areas at 1973/1974 prices corresponding to the per capita daily calorie requirements of 2400 in rural and 2100 in urban areas (Alagh, 1992, 110).

There are two forms of absolute poverty approach. That first form takes solely food consumption expenditure into consideration. The second form focuses on not only food consumption expenditures but also nonfood consumption expenditures such as shelter and clothing. Recently, in many developing countries during identifying poverty line both food consumption expenditure and nonfood consumption expenditures are taken into account. In the 1970's first half, the term Basic Needs Approach started occurring in many studies carried out by ILO and the World Bank. According to the Basic Needs Approach, people, whose needs, such as education, shelter, food and, healthcare, are not fulfilled, are regarded as poor. Such an approach

can be considered as absolute poverty approach as well. The reason why identifying poverty line by consumption expenditure is preferable is that compared to income, it is easier to measure and can be measured precisely and it is a better criteria for permanent income. Especially in the situation in which production depends on external factors such as weather conditions, consumption expenditures are not volatile as much as income. In addition, fundamentally, humanitarian needs can be related to the consumption of goods and services (Şenses, 2014, 64-65).

3.1.1. Measuring Methods of Poverty

There is a variety of methods for measuring poverty. In this subtitle, some measuring methods of poverty will be defined and then some of method's advantages and disadvantages will be discussed.

3.1.1.1. Headcount Index

It is one of the widely used methods to measure poverty (Gönel, 2013, 40). It can be calculated as follows:

$$H/N \quad (13)$$

where H is people whose income fall below the absolute poverty line and N shows the population (Todaro, Smith, 2014, 226).

There are some advantages and disadvantages using that index. The advantage is that it is easy to compute and to understand. However, there are three disadvantages of the headcount index. First of all, that index is fail to denote the intensity of poverty. For instance, assume that there are two countries which have the same degree of poverty. However, expenditure for each individual in both countries⁵ varies. In country A, expenditure for each individual are 100, 100, 150, 150 whereas in country B expenditure for each individual are 124, 124, 150, 150. According to the headcount index, degree of poverty in both countries are same. However, it is clear that there is more poverty in country A. So, as seen in this case, the headcount index fails to report the intensity of poverty (World Bank, 2005, 70).

Secondly, it is suggested that the headcount index does not demonstrate how poor an individual is. Therefore, helping the people who just below the poverty line, reduces

⁵ Assuming that these both countries have four citizen.

the headcount index. However, it may be stated that people who just below the poverty line are the least deserving of the poor (World Bank, 2005, 71).

3.1.1.2. Poverty Gap

The total poverty gap measures the total income required to raise everyone below the poverty line to this line (Todaro, Smith, 2014, 227). Poverty gap can be shown as the following:

$$TPG = \sum_{i=1}^H (Y_p - Y_i) \quad (14)$$

In the equation above, Y_p denotes the absolute poverty line and Y_i denotes poor individuals income.

On the per capita basis, average poverty gap is found by dividing the total poverty gap by the total population (Todaro, Smith, 2014, 227):

$$APG = TPG/N \quad (15)$$

Besides, economists are also interested in the size of the poverty gap in relation to the poverty line. Therefore, economists would use this as their income shortfall measure the normalized poverty gap which can be seen below:

$$NPG = APG/Y_p \quad (16)$$

This measure ranges between 0 and 1 and so can be useful when a unitless measure of the gap for easier comparisons are desired. Another important poverty gap measure is the average income shortfall (AIS), which is the total poverty gap divided by the headcount of the poor that can be expressed as the following:

$$AIS = TPG/H \quad (17)$$

The AIS denotes the average amount by which the income of a poor person falls below the poverty line. In addition, if this measure is divided by the poverty line to yield a fractional measure, we would measure, the normalized income shortfall (NIS). This also can be shown like this Todaro, Smith, 2014, 227-228):

$$NIS = AIS/ Y_p \quad (18)$$

3.1.1.3. Poverty Gap Index and Foster Greer Thorbecke Index

Poverty gap index is the average, over all households, of the gaps between poor households' standards of living and poverty line, as a ratio of the poverty line. This index reflects the changes in the degree of poverty among the poor (Ravallion, Huppi, 1991, 60-61). That index also equals normalized poverty gap which is shown in previous subtitle (Todaro, Smith, 2014, 228). Formula of poverty gap index can be seen below:

$$P_1 = \frac{1}{N} \sum_{i=1}^H \left(\frac{Y_P - Y_i}{Y_P} \right) \quad (19)$$

However, that index ignores income distribution among poor and ignores how much of the population is poor.

Foster Greer Thorbecke Index was developed to overcome such problems. The formula of this index can be shown as the following:

$$P_\alpha = \frac{1}{N} \sum_{i=1}^H \left(\frac{Y_P - Y_i}{Y_P} \right)^\alpha \quad (20)$$

When α is 0, this index turns into headcount index and when α is 1 it becomes poverty gap index (Ravallion, Huppi, 1991, 61). Any value of α greater than one gives greater weight to a poor person's poverty than to a less poor person's poverty (Fields, 1994, 93).

For instance, if α is 2, it can be written as:

$$P_2 = \frac{1}{N} \sum_{i=1}^H \left(\frac{Y_P - Y_i}{Y_P} \right)^2 \quad (21)$$

or it can be written like below:

$$P_2 = \frac{H}{N} (NIS^2 +) (1 - NIS)^2 + (CV_p)^2 \quad (22)$$

As seen in the equation above, there was a greater emphasis on income distribution among the poor (Todaro, Smith, 2014, 229).

Although this measure overcomes problems the other measures cannot, according to study of World Bank, it has a problem which is that it leaves unanswered the question of which value for α is the best.

3.1.1.4. Sen Index

Purpose of Sen index is the combine the effects of the number of poor, the depth of their poverty and, and the income distribution among the poor (World Bank, 2005, 75). Sen index can be shown as the following;

$$S = HCV_p + P_1(1 - CV_p) \quad (23)$$

where, as already mentioned, CV_p indicates is the coefficient of variation of incomes among the poor and P_1 denotes poverty gap index. As seen in the equation above, unlike the headcount index, Sen index takes income distribution into consideration (World Bank, 2005, 75).

3.2. Conceptual and Statistical Problems

In this section, conceptual and statistical problems in absolute poverty approach, in which poverty line is identified based on income/consumption, will be discussed. There are four main conceptual and statistical problems which are designating poverty criterion, collecting data, survey, and technical difficulties.

3.2.1. Designating Poverty Criteria

Identifying well being or poverty based on income or consumption expenditure has a problem. Problem is that in many countries, individual or household received many transfers in kind or non cash forms from, such as education, healthcare, education, and housing, from government or third parties In this regard, quantity, and quality of public services like education and healthcare, compared to others, low rent of residences which is belonged to public and, price control weakens the relationship between money income and well being (Senses, 2014, 69).

Especially in some developed countries, noncash expenditures exceed cash expenditures. For example, in the USA after 2004, mostly, public and mandatory private social expenditure in kind as a percentage of GDP have exceeded public and mandatory private social expenditure in cash as a percentage of GDP.

Table 7: Public and Mandatory Private Social Expenditure in Cash and Kind as a Percentage of GDP in the USA, 2004 - 2013

Years	Social Expenditure In Kind	Social Expenditure in Cash
2004	8,05	7,96
2005	8,04	7,81
2006	8,18	7,72
2007	8,27	7,77
2008	8,60	8,09
2009	9,40	9,34
2010	9,74	9,77
2011	9,69	9,56
2012	9,57	9,41
2013	9,60	9,41

Armington, Klaus, Virginia Wenger, Fiona Wiedemeier, Christian Isler, Laura Knöpfel, David Weisstanner and Sarah Engler. 2018. **Comparative Political Data Set 1960-2016**.

Note: Third parties are excluded.

In developing countries, along with the problem mentioned, there are some conceptual problems and difficulties in measurement due to their unique social and economic features. First of all, in developing countries, subsistence economy is prevalent particularly in agriculture. Secondly, social solidarity is one of the important features of these countries. Therefore, level of cash and non cash transfers are high. However, dispersion of these among households can not be identified. The third problem is related to the level of accessibility of common property resources, and also how and to what extent changes in it are taken into consideration (Şenses, 2014, 69). For example, in dry regions of India in 1982, about 84 to 100% of the poor people is shown to have depended upon common property resources for food, fuel, and fodder. Over time area, productivity and maintenance of these common property sources has been diminished due to large scale privatization, inappropriate policies and amplified commercialisation which induce overexploitation and resource degradation. This has resulted in reduced dependance of the poor on common property resources. (Suryanarayana, 1996, 2489).

Another drawback of estimating poverty based on income is that there are some cases in which people have sufficient income but do not feel well off. This may be stemmed from the fact that people are not adequately healthy or they suffer from the fact that

lack of democratic rights or freedom or their income can be earned by only bad working conditions (Flik, Van Praag, 1991, 311).

3.2.2. Collecting Data

Insufficiency of data in terms of quantity and quality is the one of the things that constraints studies on poverty. Particularly in developing countries data on poverty and income inequality are inadequate. Governments in many countries are indifferent to issues such as poverty and inequality. Poverty and income inequality are sensitive matters in terms of their political outcomes and reason why their attitude on this matters is the fact that in many countries, they under report socio economic differentiation in order to not strengthen opposition parties' hands (Şenses, 2014, 71 - 72). For example, in USSR, the terms like “poverty line” and “the poor” appeared in Soviet economic publications in the period of “Perestroika” only. Prior to “Perestroika” the term “ low income groups of the population” was used (Gustafsson, Nivorozhkina, 1996, 322). Quality and quantity of data vary across countries. Unfortunately, in many countries, finding data regarding poverty is challenging (Şenses, 2014, 72).

3.2.3. Survey

There are several problems in taking a survey in this context. First of all, size of the marginal groups such as homeless people, immigrants are insufficient. Secondly, there is also important issue arise in a situation where poor people have a more tendency to change their location compared to other section of the society. Especially in a survey in which survey needs to contact with informant periodically (Şenses, 2014, 73). Thirdly, there are also problems associated with methods applied in survey. For instance, in USSR, the survey was a quota sample of households of working in the state sector and in collective farms, plus pensioner households. This is, households' the probability of selection increased with the number of working members. Therefore, probability of selection of individuals who earn a low level of income is decreased (Marnie, Micklewright, 1994, 399). Fourthly, particularly in sensitive issues such as poverty, respondents have a tendency to say what they think the interviewer wants to hear. In addition, Disadvantaged respondents are more cautious and less assertive than most (Mead, 1994, 342). Fifthly, respondents in both developed and developing countries, sometimes misinform interviewers about their income. For instance, some

respondents do not know whether the term income includes tax and transfers coming from government, employer, and relatives. Therefore, they sometimes underreport their income. Finally, in countries, where informal employment and seasonal employment are prevalent, computing income is difficult (Şenses, 2014, 74-75).

3.2.4. Other Technical Difficulties

3.2.4.1. Measurement Period

The measurement period is an important matter. Based on what the study aims, the measurement period varies. For instance, if the aim of the study is to capture long term poverty, then the annual measurement is better in this case. Also period of the survey is also important since it can reflect special features of the period in which the survey takes place (Şenses, 2014, 75). For example, in Greece, studies regarding poverty took place in the Christmas period in which consumption expenditures are high, and redistribution occurs from the relatively better off poor to the very poor. Therefore, the decline in poverty exceeded what was expected (Tsakloglou, 1990, 140-141). Selection of measurement period is important for countries where tourism and construction sector has a relatively high share in GDP (Şenses, 2014, 75).

3.2.4.2. Measurement Unit

Just as the measurement period, a measurement can also impact the outcome of the research (Şenses, 2014, 76). Definitions of household are not the same in all countries. These definitions of households can be summarized as the following: A group of unrelated or related people living in the same dwelling and/or sharing a common budget. The biggest difference is in the treatment of students who live in rooms but come home regularly. In the Netherlands and Lorraine, they are considered separate households; in other countries, parents are considered members of the household. (Van den Bosch et. al., 1993, 237). In Sweden, young people constitute half of the poverty and share of an educated person in poverty is high. This situation may be stemmed from the fact that in Sweden, young persons with high education are typically living alone and they are classified as a household (Gustafsson, Nivorozhkina, 1996, 330).

In case of measurement unit is individual, poverty appears to be less than the situation in which measurement unit is households owing to the fact that the size of poor households is bigger than nonpoor households. As such, also whether the unit is family

or households can also impact the outcome (Şenses, 2014, 77). For example, until 1985, the official statistic for Great Britain was based on the inner family unit. After the unit was changed into a household, poverty ratio dropped from 11.1% to 8.1%, the number of people with low incomes reduced by 25% (Atkinson, 1991, 14).

Finally, income distribution within household is also another important issue as sometimes such distribution may not be occur in favor of women and children. When this fact is taken into account, the level of poverty and inequality rises by at least 25% (World Bank, 2001, 17-18).

3.2.4.3. Poverty Line Update

The need for an update of poverty line comes from compensating rising price level and protect the real value of the poverty line. Choosing the price index, which is used for the poverty line update and denote poverty line in fixed price, is also important. Price index chosen should reflect the goods and services which are mostly used by poor people. Due to finding unique price index for different regions is an issue, this leads to researchers to ignore the varying cost of living in different parts of a country. When a unique price is tough to find, researchers use consumer price index and this leads to biases in their findings (Şenses, 2014, 77-78).

3.3. Objections to Absolute Poverty Approach and Alternative Approaches

There are some important objections to absolute poverty approach regarding its statistical and conceptual problems. This criticism of absolute poverty approach leads to alternative approaches and measurement methods in poverty studies. These new approaches and measurement methods will be reviewed in the subsequent subsections.

3.3.1. Subjectivity of Poverty

It is claimed that since the notion of poverty is a subjective, poverty level is not suitable to be compared among different regions. For this reason, the minimum subsistence level is not the same all around the globe. That is, the minimum subsistence level is not identical across countries, regions or households. There are various attempts to adjust international minimum calories norms in order to overcome the problem mentioned. However, it has yet to be overcome (Şenses, 2014, 80). For instance, people of Gujarat appear to maintain their energy balance with ease at a much lower

threshold level of energy intakes than the people of Punjab where copious food consumption is considered as the primary component of good living. Therefore, the poverty level in Gujarat appears to be more than it actually is. Besides, this kind of minimum calorie norms does not take personal consumption preferences into account. For example, some people prefer a calorie level less than the norm by changing their consumption basket in favor of nonfood goods and for more expensive calorie items (Kundu, 1994, 1569-1572). In addition, the market price can be a proper welfare measure as long as income is distributed optimally. Hence, it becomes questionable which goods and price are selected in order to reach calorie considered optimal (Suryanarayana, 1996, 2488).

Finally, designating poverty line which takes nonfood and food expenditure is harder than the situation in which poverty line identified solely based on food expenditures (Şenses, 2014, 81). In the end, as seen, absolute poverty line is not suitable for international or intranational comparisons. This difficulties will be discussed in two different following subtitles which are difficulties in intranational comparisons and international comparisons.

3.3.2. Difficulties in Intranational Comparisons

In a country where regions have almost identical standard of living and transportation costs are low, using only one poverty line does not generate any big problems. Therefore, in this case, the need for using different price deflator will be removed (Şenses, 2014, 81). For instance, in a country, where the cut in food subsidies and the liberalization policies take place, and individuals in rural areas are not facing lower prices for basic goods than individuals living in urban areas because of the presence of the monopolies, researchers does not have to use multiple poverty lines (Szekely, 1995, 333).

On the other hand, using only one poverty line in many cases creates important problems. Particularly in countries where regions have different standards of living (Şenses, 2014, 81). Besides, even if households have same level of income, their welfare level may be not same as non cash income distribution also have different and considerable impact on well being of households. For example, health benefits provided by government are mostly valued by older people who most likely to make use of medical services. Hence, differential gains and losses would be realized across

households. Therefore, a single poverty line which is based on solely income does not measure properly the welfare level across households (Smeeding et al., 1993, 233).

3.3.3. Difficulties in International Comparisons

There are several reasons why researchers face difficulties when they compare poverty based on a single poverty line. First of all, surveys, which constitutes the data, differs across countries methodologically and conceptually. These differences stem from the fact that some of the surveys carried out are based on households, whereas others are based on individuals. Besides, some of them carried out based on consumption expenditures while others were carried out based on income . Secondly, governments tend to use definitions of poverty which are more favorable for them, when conducting poverty surveys. When attempting to make global comparisons, one is faced with the difficulty of choosing poverty lines. Since, poverty lines, which are based on consumption expenditure and income, are affected by countries' development level. It is stated that the poverty line increases as a country's level of development rises (Chen, Datt, Ravallion, 1994, 362). Thirdly, official exchange rates could be deceptive since non traded goods have a higher share in the poor people's consumption basket. In order to overcome this difficulty, Purchasing Power Parity (PPP) is used instead of official exchange rates, when making international comparisons (Şenses, 2014, 83). Fourthly, level of noncash benefits such as education and health benefits varies across countries. It is stated that the level of noncash benefits are high in countries where relatively poverty ratio is high. Therefore, when making international comparisons, these differences should be taken into consideration (Smeeding et al., 1993, 246-247). Sixthly, lack of data in terms of quality and quantity is also another problem. It is also suggested that this is one of the issues faced when making international comparisons. Furthermore, the countries with sparse or bad data are also likely the ones with higher poverty. Therefore, considering the fact that countries, lacking of data in terms of quality and quantity, have high a chance of having high poverty ratios, real poverty rates could exceed what available data denotes (Şenses, 2014, 84).

Aforementioned difficulties in international comparisons intensify in the context of developing countries. The difficulty is compounded when designating a poverty line relevant to the international level. Poverty is widespread in different parts of the world. For instance, poor in Ghana, who lives in a shanty town and born in rural areas and

migrants, sought out the vicinity of the larger cities in the hope of improving living conditions by working as casual laborers, as servants to richer households and as petty traders. It is claimed that as much as poor they are, they were still living in better conditions than those in Bangladesh who are landless laborers that spend 85% of their income on food and suffers from infectious diseases which are easy to get through and unemployed most of the year. So, it can be asserted that using a single poverty line for the sake of comparing poverty in international level, hides the realities of poverty (van der Gaag, 1991, 344).

This approach also has been criticized for the fact that poverty line is set low in order to show poverty ratio lower. For example, households, in which income per member exceeds threshold slightly, for example by 10\$, considered as nonpoor (Burkett, 1990, 23).

3.3.4. Relative Poverty

Relative poverty is an alternative approach to absolute poverty approach. It can be defined as the following (Townsend, 1979, 31):

“Individuals, families and groups in the population can be said to be in the poverty when they lack resources to obtain the types of diet, participate in the activities and have the living conditions and amenities which are customary, or are the least widely encouraged or approved in the societies to which they belong. Their resources are so seriously below those commanded by the average individual or family that they are, in effect, excluded from ordinary living patterns, customs and activities.”

The term that relative poverty actually mentioned by also Marx. He wrote about a man living in a small cottage was happy until a neighbor came along who constructed a palace (Streeten, 1990, 4-5).

This approach has an advantage that it links the poverty line to the income distribution and, thus, reflects the notion of relative deprivation better compared to absolute poverty approach. Nonetheless, it misses aspects of absolute deprivation. For example, if consumption of every population is halved, one can expect that the rise in the number of the poor. However, in this approach, the number of poor people stays constant (Tsakloglou, 1990, 383). Besides, this kind of approach is applied in developed countries where absolute poverty is not a big problem as much as in developing countries (Ravallion, 1992, 29-30). For example, from the perspective of the European

Union poor is the ones whose income fall below 50% of the median (World Bank, 2005, 46).

3.3.5. Not a Good Indicator of Welfare

Mostly, to be poor refers to a condition of little or no wealth, or of having few if any possessions. If being poor is defined this way, one of the most important indicators of well being is excluded (Friedmann, 1996, 163). As mentioned earlier, those who are above the poverty line which is identified based on income and consumption expenditure may have bad level of welfare as they may have a bad health or suffer from democratic rights (Flik, Van Praag, 311).

3.3.6. Exclusion of Opinions of the Poor

Absolute poverty approach has been criticized for not taking the poor's view into account and being externally imposed. The idea of participatory approach is to enable people to participate in decisions about what it means to be poor and the degree of poverty. (Laderchi, Saith, Stewart, 2003, 260).

Conceptions of ill being are rather different from absolute poverty approach. In absolute poverty approach, what constitutes ill being is that of not satisfying physiological requirements (basic needs approach). Moreover, the source of ill being is insufficient private consumption of goods and services. However, in a participatory approach, there is a broader understanding of ill being that captures physical, social, economic, political and psychological/mental elements. In this approach, potential constituents of ill being are an absence of security, autonomy, self respect, and dignity (Shaffer, 1996, 24-25).

Another approach which is related to the participatory approach is that subjective poverty line approach. The minimum income level which is required for a minimum acceptable standard of living is determined by people themselves, not by experts (Ravallion, 1992, 33). This approach is usually based on survey responses to question such as the following: "What income level do you personally consider to be absolutely minimum? That is to say that with less you could not make ends meet." For example, in a study, poor households are asked to define a poverty line, then the national median poverty line is identified (World Bank, 2005, 64-65).

3.4. Other Poverty Criteria

As mentioned earlier, since income and consumption expenditures are not good indicators of poverty and well being, scholars have been trying to find better indicators. In the development economics literature, indicators like life expectancy, mortality rate, infant mortality, malnutrition, hunger, land per capita, literacy rate, etc., has been used widely (Şenses, 2014, 97).

Besides, there are also other poverty indicators and of them is based on Engel's observation. He observes that food income ratio monotonically decreases when household incomes increase. So, in some studies the specific level of food income ratio is taken to be the poverty threshold; families with an actual food income ratio higher than this threshold are considered to be poor and vice versa. Advantage of this method is that it "automatically" adjusts for differences in household size as in larger households this ratio is higher relatively. However, there are some objections to that indicator. First of all, it is obscure whether luxuries are included in the definition of food. Secondly, food expenditure attitude varies among people. For instance, there may be rich people who spend the greater part of their income on all kinds of extraordinarily expensive components within the food parcel (Flik, Van Praag, 1991).

3.5. Composite Poverty Indicators

There is also other approach which states that poverty should not be solely measured by income/consumption expenditures, they should be accompanied by socioeconomic indicators, such as education and health, and then some of these criteria are used to constitute to composite indicators (Şenses, 2014, 99). In the subsequent subtitle, one of the widely used composite poverty (well being) measures, the Human Development Index and Multidimensional Poverty Index, will be mentioned.

3.5.1. Human Development Index

The Human Development Index (HDI) ,which is a composite measure of human development, has been published by Human Development Reports which were initiated in 1990 (United Nations Development Programme, 2001, 14). There are three dimensions of HDI which are a long and healthy life, knowledge and, a decent standard of living. There are also four indicators to capture these three dimensions: life

expectancy at birth which is used to capture long and healthy life, mean years of schooling of ages 25 and over and expected years of schooling⁶ are used to capture knowledge, last but not least Gross National Income per capita adjusted by purchasing power parity is used to capture a decent standard of living. Then, these indicators are used to construct dimension indices. Dimension indices can be calculated as follows;

$$\text{Dimension Index} = \frac{\text{actual value} - \text{minimum value}}{\text{maximum value} - \text{minimum value}} \quad (23)$$

However, income index calculated a little bit different. It can be seen below:

$$\text{Income Index}^7 = \frac{\ln(\text{actual value}) - \ln(\text{minimum value})}{\ln(\text{maximum value}) - \ln(\text{minimum value})} \quad (24)$$

Ultimately, after calculated all dimensions, HDI can be calculated as the following;

$$\text{HDI} = \sqrt[3]{I_{\text{income}} \times I_{\text{education}} \times I_{\text{health}}} \quad (25)$$

where I = index (United Nations Development Programme, 2018, 2). Maximum and minimum values of each indicator can be seen on table 8:

Table 8: Minimum and Maximum Values of Each Indicator

Dimension	Indicator	Minimum	Maximum
Health	Life expectancy (years)	20	85

Table 8 - continue

Education	Expected years of schooling (years)	0	18
	Mean years of schooling (years)	0	15

⁶ Mean years of schooling of ages 25 and over and expected years of schooling are weighted equally when calculating education index. Education index is arithmetic mean of such indicators.

⁷ For income index, the natural logarithm of the actual, the minimum and the maximum values is used since there are a diminishing returns from income for human development. (Anand, Sen, 2000, 88)

Standard of living	Gross national income per capita (2011 PPP \$)	100	75,000
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UNDP. http://hdr.undp.org/sites/default/files/hdr2018_technical_notes.pdf [08.03.2019]

The reason why the minimum value of life expectancy is 20 years is that based on historical evidence, there is no country in the 20th century had a life expectancy of fewer than 20 years. Maximum life expectancy is 85 years due to improving living conditions and medical advances. In several economies such as Japan (83.9), life expectancy is very close to 85. Since societies can survive without formal education, the minimum value of indicators related to education is 0. The maximum value of expected years of schooling equals 18 since in most countries 18 years of schooling is sufficient to acquire a master's degree. The maximum for mean years of schooling, 15, is the projected maximum of this indicator for 2025. The low minimum value for gross national income (GNI) per capita, \$100, is justified by the considerable amount of unmeasured subsistence and nonmarket production in economies close to the minimum, which is not captured in the official data. The maximum value of GNI per capita is set at 75,000\$. The reason why such specific value is maximum is that Kahneman and Deaton (2010, 16491-16492) have revealed that income that exceeds 75,000\$ have little effect on the emotional well being of individuals. Based on everything mentioned about HDI, HDI in Egypt, in 2014, can be calculated as follows:

Table 9: Indicator Values For Egypt

Indicator	Egypt
Life Expectancy at Birth(years)	71.7

Table 9 - continue

Expected Years of Schooling (years)	13.1
Mean Years of Schooling(years)	7.2
GNI per capita (2011 PPP \$)	10,355

UNDP. http://hdr.undp.org/sites/default/files/hdr2018_technical_notes.pdf. [08.02.2019]

$$\text{Health Index} = \frac{71.611-20}{85-20} = 0.7948$$

$$\text{Expected years of schooling index} = \frac{13.0898-0}{18-0} = 0.7272$$

$$\text{Mean years of schooling index} = \frac{7.218-0}{15-0} = 0.4812$$

$$\text{Education Index} = \frac{0.7272+0.4812}{2} = 0.6042$$

$$\text{Income Index} = \frac{\ln(10,355)-\ln(100)}{\ln(75,000)-\ln(100)} = 0.7009$$

$$\text{HDI} = \sqrt[3]{0.7009 \times 0.6042 \times 0.7009} = 0.696$$

HDI ranks all countries on a scale of 0 to 1. Based on HDI, countries can be grouped as table 10 shows :

Table 10: Grouping Countries Based on HDI

Very High Human Development	0.800 and above
High Human Development	0.700-0.799
Medium Human Development	0.550-0.699
Low Human Development	Below 0.550

UNDP. http://hdr.undp.org/sites/default/files/hdr2018_technical_notes.pdf. [08.02.2019]

3.5.2. Multidimensional Poverty Index

In 2010, the Human Poverty Index is replaced by the Multidimensional Poverty Index (MPI). The main focus of MPI is to measure acute poverty. Acute poverty refers to two main characteristics. Firstly, it contains people living under conditions where they do not reach the minimum internationally agreed standards in indicators of basic functionings like being well nourished, being educated or drinking clean water. Secondly, it refers to people living under conditions in which they do not reach the minimum standards in several aspects simultaneously. (United Nations Development Programme, [02.05.2019]).

There are dimensions of MPI which are education, health, and standard of living. In addition, there are two indicators, that are whether any child has died in the family in

the five years preceding the survey and whether any adult under age of 70 or child in the family is malnourished, are weighted equally (so each counts one-sixth toward the maximum possible deprivation in the MPI). Related to education, there are two indicators, which are if any school-aged child is not attending school up to the age at which she or he would class 8 and whether not even one household member, who are aged 10 years or older have completed six years of schooling are weighted equally (so each counts one-sixth toward the maximum possible deprivation in the MPI). Finally, regarding standard of living there are six indicators which are lack of electricity, insufficiently safe drinking water, inadequate sanitation, inadequate materials for at least one of roof, walls and floor: The floor is of natural materials and/or the roof and/or walls are of natural or rudimentary materials, dirty cooking fuel, and lack of more than one of those assets; telephone, radio, television, bicycle, motorbike, animal cart, and does not own a car or truck, are weighted equally (so each counts one-eighteenth toward the maximum possible deprivation in the MPI) (United Nations Development Programme, [01.05.2019]).

Individuals are regarded as multidimensionally poor when their family is deprived by "weighted sum" of 0.3 or more. With the help of the table below, calculations, regarding this matter, will be mentioned. Individuals are regarded as multidimensionally poor when their family is deprived by "weighted sum" of 0.3 or more. With the help of table 11, calculations, regarding this matter, will be mentioned.

Table 11: Example Using Hypothetical Data

Indicators	People in Households				Weights
	1	2	3	4	
Household size	4	7	5	4	
<i>Education</i>					

No one, who are aged 10 years old or older, has completed six years of schooling	0	1	0	1	1/6
Any school-aged child is not attending school up to the age at which she or he would class 8.	0	1	0	0	1/6
<i>Health</i>					
An adult under 70 of age or child is undernourished	0	0	1	0	1/6
One or more children have died	1	1	0	1	1/6
<i>Living Standards</i>					
No electricity	0	1	1	1	1/18
No access to clean drinking water	0	0	1	0	1/18
No access to adequate sanitation	0	1	1	0	1/18

Table 11 - continue

Housing materials for at least one of a roof, walls and floor are inadequate: the floor is of natural materials and/or the roof and/or walls are of	0	0	0	0	1/18
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natural or rudimentary materials.					
Household uses dirty cooking fuel	1	1	1	1	1/18
A lack of more than one of those assets; telephone, radio, television, bicycle, motorbike, animal cart, and does not own a car or truck	0	1	0	1	1/18
Weighted sum(Score)	0.222	0.722	0.389	0.5	
Is the household poor?	No	Yes	Yes	Yes	
Censored Score	0	0.722	0.389	0.5	

United Nations Development Programme. Training Material for Producing National Human Development Reports. [01.05.2019]

Note: 1 indicates deprivation in the indicator; 0 indicates non- deprivation.

The score of each person in household 1: $\left(1 \times \frac{1}{6}\right) + \left(1 \times \frac{1}{18}\right) = 0.222$

MPI for a country or society is the product of multidimensional headcount ratio (the percentage of people living in multidimensional poverty) and intensity of poverty (the percentage of weighted indicators for which poor households are deprived on average.) (Todaro, Smith, 2014, 244). Based on data in table 11 we can calculate as follows;

$$\text{Multidimensional Headcount Ratio} = \left(\frac{7+5+4}{4+7+5+4}\right) = 0.8$$

$$\text{Intensity of Poverty} = \frac{(0 \times 4) + (0.722 \times 7) + (0.389 \times 5) + (0.5 \times 4)}{(7+5+4)} = 0.562$$

$$\text{MPI} = \text{Multidimensional Headcount Ratio} \times \text{Intensity of Poverty} \quad (27)$$

So, in this case, MPI equals to:

$$0.8 \times 0.5625 = 0.450.$$

Based on the results, it can be asserted that 80% of the population is multidimensionally poor and on average the poor, in this case, are deprived in 56% of the weighted indicators. However, in this case, all poor are not equally poor. As seen in calculations MPI is also the multidimensional headcount ratio which is adjusted by the intensity of poverty. It is important since it allows that countries having different MPI despite having identical multidimensional headcount ratio. So, it can be asserted that MPI achieves what headcount index does not which is taking the intensity of poverty. Along with that, it also has an important feature which is being able to demonstrate when the poor gets even poorer. (United Nations Development Programme, [02.05.2019] ; Todaro, Smith, 2014, 245).

However, MPI is criticized for some reasons. Firstly, it does not distinguish past and present conditions. To clarify, one of the indicators of a dimension is that if a child has ever died. Secondly, it does not take differences within households into account. To clarify, it does not give any clue regarding whether women or child is undernourished. Finally, data are from household level rather than individual level (Todaro, Smith, 2014, 247).

4. GLOBALIZATION AND POVERTY: EMPIRICAL ANALYSIS

4.1. Globalization and Poverty Relationship: Theoretical Literature Review

Globalization can impact poverty directly and indirectly. Globalization can reduce poverty by boosting growth rates. This is one of the ways how it can affect poverty indirectly (Bhagwati, 2004, 53-62). For instance, some scholars claim that financial liberalization has a positive impact on the growth rate. One of the potential reasons behind this claim is that since foreign capital can flow into a country freely, the supply of funds increases. As a consequence of that a price of capital decreases and investment level increases (Mishkin, 2009, 154-155). Secondly, it is stated that risk diversification has a positive impact on growth. The reason behind this is that engaging in innovative activities are risky but being able to hold diversified portfolio investors may reduce the risk and encourage investors to carry out investment in such activities. So, technological development may occur and growth rate rises (King, Levine, 1993). Therefore, financial liberalization is expected to have a positive impact on growth. It is asserted that trade liberalization has a positive impact on growth for a variety of reasons. First of all, free trade causes higher competition which brings about a rise in quality of the product that the country produces and therefore gains from trade may rise as well. Secondly, countries can take advantage of economies of scale. Finally, according to the traditional trade theory, if all countries specialize in the production of the goods in which they have a comparative advantage, world output will be greater, and, via trade, each nation will share in the gain (Salvatore, 2011, 363). However, Prebisch (1959) does not agree with the claim that free trade is beneficial for both parties. In his model, there are two countries, which are developing and developed countries, and two goods. Developing countries produce a good that has low income elasticity of demand (which is 0.8) whereas developed countries produce a good which has a higher income elasticity of demand (which is 1.3). He also assumes that both developed and developing countries have the same initial growth rate which is 3.0. In

this case, the growth rate of export for the developed country is equal to 3.9 (3.0×1.3) and growth rate of import for the developed country is equal to 2.4 (3.0×0.8). Also, the growth rate of export for the developing country is equal to 2.4 (3.0×0.8), the growth rate of import for the developing country is equal to 3.9 (3.0×1.3). As a result of trade between them, the growth rate of import exceeds the growth rate of export in developing countries, which leads to a trade deficit. This trade deficit is not sustainable unless it is financed by external savings. The developing country should implement a policy which lower the growth rate of imports. In this case, the developing country should lower its growth rate. Ultimately, the income gap between developed and developing countries rise (Gönel, 2013, 113). However, Prebisch(1959) claims that, if a developing country should implement an import substitution strategy can keep its growth rate at 3.0.

Besides globalization can impact poverty directly. Trade globalization can lower extreme poverty. In developing countries, trade globalization can decrease poverty. Since, according to Stolper Samuelson theorem, trade between labor abundant and capital abundant countries induce an increase in the return of unskilled labor (Kazgan, 2014, 171). Therefore, poor in the developing country gets to benefit from trade liberalization. It is also stated that countries that wish to maintain export promoting trade strategy should pay attention to their macroeconomic stability. To clarify, countries, in order to stay competitive, should keep their inflation level low (Bhagwati, Srinivisan, 2002, 180). So, in this case, it is stated that export promoting strategy is beneficial for the poor as it is claimed that the poor are vulnerable to inflation. However, in the literature, some arguments oppose such views. First of all, in the short run, in the presence of labor market rigidities, the poor would not acquire benefits of trade globalization. Since they may not be able to move out of contracting sectors and into expanding ones. Therefore, in the short run, both unemployment and poverty may increase. Secondly, unlike the prediction of Stolper Samuelson Theorem, trade liberalization may cause a reduction in demand for unskilled labor in developing countries. It is stated that as a result of trade liberalization, a higher level of technology is introduced in developing countries. As a consequence, the demand for skilled labor increases whereas the demand for unskilled labor decreases since such technology requires the use of skilled labor. In the end, reduction in demand for unskilled labor leads to higher level unemployment for such type of labor and increased poverty rates.

Thirdly, it is stated that inflation may not be harmful to the poor as other scholars think. Since, a drop in the real wage, as a consequence of inflation, leads to an increase in employment. Therefore, inflation may reduce poverty (United Nations, 2010, 89). Finally, trade liberalization may cause a fall in government revenues as a result of tariff reduction. Thereby, the government shrinks its expenditure such expenditure may lead to poverty alleviation. Thus, trade liberalization may hurt the poor (Winters, 2002, 1352-1353).

According to some scholars, financial liberalization may lead to better access to finance (Arestis, Caner, 2004, 17). With better access to finance, poor people can invest in their education and may become an entrepreneur. As a result, their income may rise (World Bank, 2008, 24-105). Therefore, financial liberalization is expected to decrease the poverty level. However, as we mentioned before, it is stated there is a close relationship between financial crises and capital mobility. It is stated that in countries after the crises the wage share is observed to decrease (Onaran, 177). Thereby, it can be expected that financial liberalization may lead to raising the level of poverty.

4.2. Empirical Literature

The empirical literature on the relationship between globalization and poverty is quite extensive. One of the important studies aiming to reveal the relationship between the stated variables is Bergh and Nilsson's (2011). In their study Bergh and Nilsson (2011) use four-five years averaged data covering the period 1988-2007 for 114 developing countries. They found that economic globalization and social globalization reduce headcount ratio.

Lee (2014) examines the relationship between globalization and poverty by using data covering the 1990-2004 period and includes only lower and lower middle income countries. He found that the trade liberalization decreases the headcount ratio whereas the financial integration that is a measure of financial globalization increases the headcount ratio.

In the study carried out by Dollar and Kraay (2002), there is no direct significant effect of economic openness on poverty. Nevertheless, they found international trade

openness positively related to growth, whereas negatively related to poverty. Thereby, international trade can reduce poverty by boosting growth rates.

Agenor (2002) found that there is a nonlinear relationship between globalization and poverty. He found that at lower degrees of globalization, globalization increases poverty but at a higher level of globalization, globalization reduces poverty.

Yanar and Şahbaz (2013) found that economic globalization has an insignificant effect on poverty whereas political and social globalization has a statistically significant and negative impact on poverty in their study where they use cross sectional data from 2010 for 102 developing countries.

Neutel and Heshmati (2006) found that globalization leads to lower level of poverty which is either determined in absolute or relative terms by using data covering 65 developing countries and from 2001. Also, they found that at the lower level of globalization, a rise in globalization level leads to lower level of poverty but at the higher level of globalization, an increase in globalization level still reduces poverty level but compared to the previous situation, a rise in globalization has a less impact on poverty reduction.

By using the panel data set for 65 developing countries, over the period 1970-2008 where the data is averaged over the periods of three to seven years, MacDonald and Majeed (2010) found that, for all countries and countries with low financial intermediation, there is a positive relationship between trade openness and poverty. Besides, the relationship between the ratio of foreign direct investment inflow to GDP which is used as a measure of financial globalization and poverty are positive as well. However, for countries with high financial intermediation, an increase in the ratio of foreign direct investment inflow to GDP and trade openness lead to a lower level of poverty.

By using the data covering the period 1970-1998, Santarelli and Figini (2002) found that an increase in trade openness leads to a lower level of extreme poverty whereas an increase in net foreign direct investment inflow over GDP, which is used as a measure of financial globalization, causes a higher level of extreme poverty.

Beck, Levine, and Demirgüç-Kunt (2007), found that trade openness has no significant effect on extreme poverty by using data covering the period between 1980 and 2005, containing 68 developing countries.

By using the data includes 120 countries, covers the period between 2007-2014, Topal and Günay (2017) found that globalization leads to a lower level of poverty.

Kpodar and Singh(2011)found that there is no significant effect of trade openness on poverty by using the data includes 47 developing countries, and captures the period between 1984-2008.

4.3. Model Specification and Data

In this chapter, the relationship between economic globalization and poverty is investigated by using panel data. We use annual data for 101 countries all around the world including the period 1990 to 2016. Having been run particular tests, like Likelihood Ratio, Hausman Test, fixed effects model with no time effect is employed⁸.

As a dependent variable, the headcount ratio at 1.90\$ a day (2011 PPP) (% of the population) is chosen. We use the absolute poverty line over the relative poverty line since, as mentioned earlier, when positive or negative took place, everyone's income level enhances or diminishes. However, if such increase or decrease occurs in similar level, relative poverty levels stay constant (Tsakloglou, 1990, 383). Therefore, it may fail to give any clues regarding how to decrease poverty. Models can be seen below:

$$HeadcountRatio_{i,t} = C + \alpha_{i,t} lgdppc + \beta_{i,t} edu + \delta_{i,t} KOF + \gamma_{i,t} demo + \varepsilon_{i,t} lifeexp + \varphi_{i,t} gini + \lambda_i + \mu_{i,t} \quad (28)$$

$$HeadcountRatio_{i,t} = C + \alpha_{i,t} lggdppc + \beta_{i,t} edu + \delta_{i,t} KOF + \gamma_{i,t} demo + \theta_{i,t} deprat + \varphi_{i,t} gini + \lambda_i + \mu_{i,t} \quad (29)$$

where C is the constant, λ is a country fixed effect, and μ is the error term. In table 12, all the variables used in the model and related data sources are given.

Table 12: Variables and Sources

⁸ The amount of low, middle and, high income countries are 19, 53 and, 29 respectively. List of countries can be seen in the Appendix section. Besides, the results of mentioned tests can be seen that section as well.

Variables	Definitions	Data Source
Headcount Ratio	Percentage of the population living on less than \$1.90 a day at 2011 international prices	World Bank, World Development Indicators Database
lgdppc	Log of real per capita GDP, in 2011 US\$	World Bank, World Development Indicators Database
lifeexp	Life expectancy at birth	World Bank, World Development Indicators Database
gini	Gini coefficients	World Bank, World Development Indicators Database
edu	Mean years of schooling	United Nations Development Reports http://hdr.undp.org
demo	Polity Score -Polity IV Dataset	Center for Systemic Peace- INSCR Datapage
deprat	Age dependency ratio	World Bank, World Development Indicators Database
KOF A	Economic Globalization	Gygli,Haelg, Potrafke , Sturm (2018)
KOF B	Trade Globalization	Gygli,Haelg, Potrafke, Sturm (2018)
KOF C	Financial Globalization	Gygli,Haelg, Potrafke, Sturm (2018)

4.4. Empirical Results

In this section, using fixed effect model, the relationship between globalization and poverty is analyzed and results can be seen in table 13-16.

Table 13: Results for All Countries

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
VARIABLES	Fixed Effects	Fixed Effects	Fixed Effects	Fixed Effects	Fixed Effects	Fixed Effects	Fixed Effects	Fixed Effects
lgdppc	-13.55*** (1.231)	-14.19*** (1.070)	-13.73*** (1.247)	-14.78*** (1.000)	-13.37*** (1.195)	-14.15*** (1.018)	-13.73*** (1.158)	-14.55*** (1.027)
edu	-0.761*** (0.255)	-0.933*** (0.287)	-0.826*** (0.234)	-0.968*** (0.329)	0.0117 (0.332)	-0.160 (0.342)	-0.0824 (0.294)	-0.150 (0.378)
gini	0.392*** (0.0545)	0.391*** (0.0564)	0.395*** (0.0565)	0.372*** (0.0594)	0.362*** (0.0551)	0.358*** (0.0577)	0.367*** (0.0568)	0.337*** (0.0605)
demo	-0.0592*** (0.0189)	-0.0606*** (0.0196)	-0.0600*** (0.0187)	-0.0585*** (0.0199)	-0.0566*** (0.0183)	-0.0581*** (0.0191)	-0.0584*** (0.0183)	-0.0553*** (0.0193)
KOF A		0.0698** (0.0339)				0.0932*** (0.0324)		
lifeexp	-0.270*** (0.0758)	-0.260*** (0.0753)	-0.271*** (0.0763)	-0.234*** (0.0686)				
KOF B			0.0216 (0.0277)				0.0438 (0.0277)	
KOF C				0.108*** (0.0373)				0.116*** (0.0365)
deprat					0.259*** (0.0402)	0.268*** (0.0401)	0.267*** (0.0435)	0.261*** (0.0394)
Constant	146.4*** (9.480)	149.1*** (8.725)	147.4*** (9.215)	151.2*** (8.752)	105.1*** (9.376)	107.9*** (8.782)	106.0*** (9.207)	111.1*** (9.054)
Observations	1,999	1,998	1,998	1,998	1,999	1,998	1,998	1,998
Number of groups	101	101	101	101	101	101	101	101
Country FE	YES	YES	YES	YES	YES	YES	YES	YES
R- squared	0.392	0.393	0.391	0.399	0.408	0.411	0.409	0.417

Notes: Standard errors in paranthesis. *, **, *** denote statistical significance at 10%, 5%, 1% levels, respectively. Standard are estimated by using Driscoll Kraay estimator as it can produce standard errors which are resistant to autocorrelation, heteroscedasticity and, cross sectional dependancy (Tatoğlu, 2016, 276-279).

Table 14: Results for Low Income Countries

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
VARIABLES	Fixed Effects	Fixed Effects	Fixed Effects	Fixed Effects	Fixed Effects	Fixed Effects	Fixed Effects	Fixed Effects
lgdppc	-22.75*** (6.299)	-21.83*** (5.633)	-23.24*** (6.430)	-21.26*** (5.235)	-25.34*** (5.546)	-24.48*** (5.121)	-25.71*** (5.549)	-24.12*** (4.963)
edu	-4.480** (2.095)	-3.574* (2.068)	-4.204* (2.050)	-3.897* (2.078)	-6.466*** (1.241)	-5.621*** (1.334)	-5.784*** (1.291)	-6.081*** (1.288)
gini	0.772*** (0.268)	0.729*** (0.254)	0.720** (0.264)	0.767*** (0.249)	0.783*** (0.272)	0.740*** (0.258)	0.714** (0.265)	0.778*** (0.257)
demo	-0.0463* (0.0267)	-0.0450 (0.0281)	-0.0354 (0.0267)	-0.0554* (0.0299)	-0.0562 (0.0345)	-0.0547 (0.0353)	-0.0470 (0.0342)	-0.0602 (0.0355)
KOF A		-0.323* (0.186)				-0.319 (0.190)		
lifeexp	-0.286 (0.363)	-0.298 (0.375)	-0.210 (0.388)	-0.348 (0.341)				
KOF B			-0.194* (0.104)				-0.254** (0.113)	
KOF C				-0.214 (0.164)				-0.184 (0.168)
deprat					-0.165 (0.171)	-0.161 (0.161)	-0.258 (0.194)	-0.0947 (0.135)
Constant	217.4*** (43.09)	222.7*** (42.98)	224.8*** (44.97)	217.4*** (40.90)	240.7*** (47.60)	245.6*** (50.32)	261.9*** (55.40)	232.1*** (42.05)
Observations	313	313	313	313	313	313	313	313
Number of groups	19	19	19	19	19	19	19	19
Country FE	YES	YES	YES	YES	YES	YES	YES	YES
R- squared	0.572	0.586	0.579	0.582	0.572	0.586	0.584	0.579

Notes: Standard errors in paranthesis. *, **, *** denote statistical significance at 10%, 5%, 1% levels, respectively. Standard are estimated by using Driscoll Kraay estimator as it can produce standard errors which are resistant to autocorrelation, heteroscedasticity and, cross sectional dependency (Tatoğlu, 2016, 276-279).

As seen in the results, tables point out that the coefficient of GDP per capita is significant and negative, meaning that a rise in GDP per capita decreases extreme poverty in all cases for all countries, and all income groups of countries. This finding is consistent with the finding of Dollar and Kraay (2002, 205-209). Another noteworthy point is that the magnitude of the coefficient changes depending on the income group of the country. To clarify, as the income of the country gets lower, the impact of a rise in per capita GDP is higher. In other words, a rise in GDP per capita in a high income country decreases poverty much less than a rise in GDP per capita in a low income country does.

Also, results for all, low income, middle income⁹, and high income countries suggest that a rise in the Gini coefficient leads to a rise in poverty level. These findings are in line with the studies of MacDonald and Majeed(2000), and Lee(2014). The indicated relationship between the Gini coefficient and the poverty level can be explained by a rise in income inequality's adverse impact on growth or positive effect of a decrease in income inequality on growth. There are three possible explanations for those. First of all, greater inequality may be deemed as unacceptable to voters, thereby they would demand high taxes and regulations which are not beneficial for business, all of which may decrease incentives to invest. Besides, a rise in income inequality might cause political instability and social unrest, with harmful effects on growth. Secondly, in case of capital market imperfections, which implies that the capability to invest of individuals depends on their income or wealth level, individuals who earn a lower level of income may not be capable of affording worthwhile investments. For instance, lower income households may opt for leaving full time education, if they cannot afford the fees, although the return of education is high. So, the aggregate output would be lower than in the case of a perfect capital market(Cingano, 2014, 10-11). The third explanation is demand oriented. Marginal propensity to consume is believed to decrease as an individual's income rises. Bernstein(2013, 7) states that in a country where income inequality is reducing as low income consumers have a higher tendency to consume, consumption expenditure in the country rises, so growth increases as well, and this faster growth leads to more investments in the economy.

⁹ In a few cases, Gini coefficients are found to be insignificant for middle income countries.

Results also indicate that a rise in mean years of schooling leads to a decrease in poverty. This might be stemmed from the fact that an increase in productivity as a result of an increase in the level of education leads to arise in the income of individuals (Çalışkan, 2007, 291). This result is identical to the finding of Lee (2014) who found more education leads to a lower level of poverty. In his study, the level of education is measured by the secondary school enrollment ratio. However, except for low income countries, when we add dependency ratio into the model instead of life expectancy at birth, education turns into insignificant. Especially for middle and high income countries, this situation may be stemmed from the fact that that ratio of children to total population in low income countries are relatively higher than low and high income countries.¹⁰ By raising mean years of schooling increasing productivity by which increasing growth and decreasing extreme poverty is possible for low income countries as a percentage of children in total population is relatively high. However, in middle and high income countries the percentage of children in the total population is relatively low, and the percentage of the old people in the total population is high. Increasing mean years of schooling may have little effect on those countries.

Aside from low income countries, in which dependency ratio is found to be insignificant, results for middle income, high income, and all countries denote that a rise in dependency ratio increases extreme poverty. Beck, Levine and Demirgüç-Kunt (2007), found that the dependency ratio has an insignificant effect on poverty. Therefore, our findings for low income countries are similar to study of Beck, Levine ,and Demirgüç-Kunt's (2007) in this case. Keho (2012, 69-70) states that, based on the life cycle hypothesis, states that rise in dependency ratio adversely affects aggregated savings rate as children may constitute a burden for parents and do not contribute to production. Similarly, the elderly population is also expected to have a negative effect on aggregated savings as the retired depends on the working population, hence they are assumed to dissave. Decreasing aggregated savings leads to a lower level of investment, thus economic growth reduces (Santacreu, 2016, 1) and the poor may be affected by such situation negatively.

¹⁰ In 2017, the percentage of children in total population is 16.96, 26, and 42.34 % for high, middle and, low income countries respectively. In 2017, young dependency ratio is 25.74, 38.92 and, 77.99% for high, middle and, low income countries respectively.

Results for all countries suggest that increase in life expectancy at birth reduces poverty. Such finding is consistent with the finding in the study of Agenor (2002) who use hospital beds per 1000 persons as an indicator for health conditions. According to some scholars, health conditions have an impact on education and cognitive ability. More clearly, it is stated that there is a positive relationship between class attendance and health conditions (Currie et. al., 2008, 20-26). Also, ill health affects cognitive skills adversely (Bloom, Canning, 2008, 6). Besides, using height as an indicator of health, it is shown that, each centimeter gain in height has a positive impact on productivity and wages (Bloom, Canning, 2003, 307) Therefore, we may expect that a rise in health conditions leads to an increase in productivity which leads to an increase in income and a rise in growth. Thus, in the end, poverty decreases through a rising growth rate or rise in income. Results for high and middle income countries, a rise in life expectancy leads to higher level of poverty which result is surprising at first glance. Yet, this situation may be stemmed from the fact that in such countries, rise in life expectancy at birth which is accompanied by a decline in total fertility rate leads to higher old age dependency ratio in those countries which is supported by data. According to the World Bank, the old dependency ratio in 1990 were 18.18% and 8.05% for high income and middle income countries respectively. However, in 2016, the old dependency ratio for middle and high income countries is 10.77% and 25.96%. Santacreu (2016, 1) states that situation leads to a decrease in aggregate savings, thus leads to a lower level of investment and growth rate is impacted negatively. Then poverty may increase for such countries.

Except for high income countries and low income countries¹¹, for all and middle income countries, democracy has a negative relationship with poverty. Our findings for all and middle income countries are different from the findings of Kodila-Tedika and Martin Mulunda Kabange (2018) who found that a rise in democratization has an insignificant impact on poverty. According to the median voter theorem, there is a positive association between democracy and redistributive policies. The theorem asserts that under universal suffrage, when income is unequally distributed, the median income falls below the mean income. Since the decisive voter earns an income below the average, this voter presumably chooses redistribution policies or higher tax rate. As a result, democracy is expected to reduce the level of poverty (United Nations

¹¹ Democracy is found to be significant for low income countries in few cases.

Research Institute for Social Development, 2010, 285). Kamal (2000, 4) states that democracy allows poor people to influence and develop policies which would be to poor people's interest.

For all, middle income and high income countries (in one case), increase in economic globalization leads to a higher rate of poverty whereas, in low income countries, it leads to the lower rate of poverty however this result is not robust. Compared to the study of Yanar and Şahbaz's (2013), our findings are different. In most cases, economic globalization has a significant impact on poverty in our study while they found the coefficient of economic globalization as insignificant. However, the result for low income countries is similar to the study of Bergh and Nilsson (2011) who found that economic globalization reduces extreme poverty. When we have a look at the results of sub-indices of economic globalization, we see that trade globalization, except for middle income countries and all countries and a case for high income countries, seemingly decreases poverty. Results for all countries and middle income countries are similar to the studies of Beck, Levine, and Demirgüç-Kunt(2007) and Kpodar and Singh(2011) who found that trade openness has an insignificant impact on poverty. However, results for high and low income countries are similar to the findings of Lee(2014) and Santarelli and Figini(2002). Both authors suggest that trade openness leads to a lower level of poverty. Such results for low and high income countries approve traditional trade theory which states trade is beneficial for both parties (Salvatore, 2011, 363). When it comes to financial globalization, it is insignificant for low income countries but significant and positively associated with poverty for high income (in one case), middle income countries and all countries. Results for all, middle and high income countries are similar to studies of Lee (2014), Santarelli and Figini (2002) and MacDonald and Majeed(2010). All of these authors found that financial globalization leads to a higher level of poverty. In this paper, it is already investigated how capital mobility is closely related to the financial crisis. Such a relationship between the financial crisis and capital mobility may explain the positive relationship between financial globalization and poverty. Besides, Onaran (2007, 177) reveals that wage share fell after crises. For instance, after the financial crisis which took place in Indonesia, the wage share declined by 29.5%.

Table 15: Results for Middle Income Countries

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
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VARIABLES	Fixed Effects	Fixed Effects	Fixed Effects	Fixed Effects	Fixed Effects	Fixed Effects	Fixed Effects	Fixed Effects
lgdppc	-17.91*** (1.152)	-18.62*** (1.278)	-18.42*** (1.348)	-18.83*** (1.128)	-15.78*** (1.056)	-16.45*** (1.014)	-16.33*** (1.089)	-16.49*** (0.979)
edu	-2.262*** (0.378)	-2.492*** (0.370)	-2.419*** (0.365)	-2.500*** (0.392)	0.0998 (0.829)	-0.0148 (0.841)	-0.0127 (0.799)	0.0587 (0.882)
gini	0.171* (0.0855)	0.165* (0.0835)	0.178* (0.0893)	0.142* (0.0828)	0.128 (0.0890)	0.118 (0.0857)	0.134 (0.0896)	0.0957 (0.0860)
demo	-0.0525** (0.0232)	-0.0545** (0.0238)	-0.0542** (0.0231)	-0.0535** (0.0246)	-0.0486* (0.0241)	-0.0505* (0.0249)	-0.0504** (0.0241)	-0.0491* (0.0256)
KOF A		0.0851** (0.0373)				0.0931** (0.0394)		
lifeexp	0.482*** (0.0920)	0.503*** (0.0937)	0.487*** (0.0911)	0.530*** (0.0929)				
KOF B			0.0499 (0.0379)				0.0579 (0.0402)	
KOF C				0.107*** (0.0165)				0.106*** (0.0142)
deprat					0.249** (0.0927)	0.265** (0.0980)	0.258** (0.0983)	0.268*** (0.0911)
Constant	146.5*** (9.668)	148.9*** (8.879)	149.0*** (9.299)	148.5*** (8.982)	130.0*** (12.16)	131.4*** (11.89)	131.9*** (11.57)	131.1*** (11.95)
Observations	1,185	1,184	1,184	1,184	1,185	1,184	1,184	1,184
Number of groups	53	53	53	53	53	53	53	53
Country FE	YES	YES	YES	YES	YES	YES	YES	YES
R- squared	0.495	0.497	0.495	0.501	0.498	0.500	0.499	0.504

Notes: Standard errors in paranthesis. *, **, *** denote statistical significance at 10%, 5%, 1% levels, respectively. Standard are estimated by using Driscoll Kraay estimator as it can produce standard errors which are resistant to autocorrelation, heteroscedasticity and, cross sectional dependancy (Tatoğlu, 2016, 276-279).

Table 16: Results for High Income Countries

(1) (2) (3) (4) (5) (6) (7) (8)

VARIABLES	Fixed Effects	Fixed Effects	Fixed Effects	Fixed Effects	Fixed Effects	Fixed Effects	Fixed Effects	Fixed Effects
lgdppc	-2.057*** (0.227)	-2.006*** (0.229)	-2.039*** (0.241)	-2.139*** (0.202)	-1.173*** (0.121)	-1.257*** (0.137)	-1.173*** (0.136)	-1.455*** (0.111)
edu	-0.103*** (0.0358)	-0.0940** (0.0351)	-0.0795** (0.0334)	-0.106*** (0.0359)	-0.0237 (0.0298)	-0.0545 (0.0373)	-0.0238 (0.0311)	-0.0673 (0.0412)
gini	0.110*** (0.0288)	0.112*** (0.0290)	0.112*** (0.0287)	0.108*** (0.0287)	0.123*** (0.0293)	0.121*** (0.0294)	0.123*** (0.0298)	0.117*** (0.0283)
demo	-0.00454 (0.121)	0.0228 (0.126)	0.0414 (0.116)	-0.0231 (0.126)	0.0926 (0.125)	0.0723 (0.126)	0.0926 (0.124)	0.0619 (0.120)
KOF A		-0.00824 (0.00756)				0.0112* (0.00583)		
lifeexp	0.151*** (0.0350)	0.162*** (0.0424)	0.182*** (0.0482)	0.146*** (0.0325)				
KOF B			-0.0183* (0.00908)				1.92e-05 (0.00602)	
KOF C				0.00531 (0.00454)				0.0206*** (0.00515)
deprat					0.0543*** (0.0154)	0.0638*** (0.0172)	0.0543*** (0.0144)	0.0776*** (0.0196)
Constant	7.485*** (1.368)	6.279*** (1.999)	5.427** (2.163)	8.595*** (1.418)	5.275** (2.095)	5.460** (2.226)	5.275** (2.119)	6.462*** (2.154)
Observations	501	501	501	501	501	501	501	501
Number of groups	29	29	29	29	29	29	29	29
Country FE	YES	YES	YES	YES	YES	YES	YES	YES
R- squared	0.410	0.413	0.423	0.412	0.400	0.404	0.400	0.423

Notes: Standard errors in paranthesis. *, **, *** denote statistical significance at 10%, 5%, 1% levels, respectively. Standard are estimated by using Driscoll Kraay estimator as it can produce standard errors which are resistant to autocorrelation, heteroscedasticity and, cross sectional dependancy (Tatoğlu, 2016, 276-279).

5. CONCLUSION

Globalization and its outcomes are strongly debated matters. Aside from an obvious scientific interest, its study is further motivated by its close relation to policy debates. National and international inequality, independence of nations, development of underdeveloped countries and many other subjects are closely interlinked to globalization. The outcomes are debated even from the perspective of developed countries. On one hand, lower labor costs and increased labor flexibility are among the many outcomes of globalization that drives up falling profit rates in the developed countries. On the other hand, job outsourcing, job security, and increased unemployment and underemployment are among the contributing factors to the political crisis that is observed in most developed countries today. Therefore political and scientific reasons make globalization discussions highly heated and relevant today.

In this study, globalization's impact on poverty was investigated. There are two reasons why we chose this topic. Firstly, it is a problem that is related to many of the discussions surrounding the globalization phenomenon. Secondly, it has a significant impact on contemporary politics and events, so much so that poverty became one of the most important battlegrounds between pro and anti globalization economists and politicians. It is therefore highly relevant and important to contribute to this discussion in a fact based and methodologically rigorous manner. Before mentioning the relationship between globalization and poverty, globalization's impacts on the structure of national economies is discussed first. In the process of globalization, countries experienced deindustrialization, and at the same time, the world witnessed rising levels of international trade and financial globalization. Subsequently, both positive and negative outcomes of globalization need to be studied. Such outcomes are directly related to poverty or the potential determinants of poverty.

In the third section of this study, advantages and disadvantages of various approaches of poverty are demonstrated. In addition, measuring methods of poverty is demonstrated with their advantages and disadvantages as well. In this study, in the last section, headcount ratio is used as a dependant variable despite having a disadvantage such as not showing intensity of poverty. However, it has an advantage that it is easy to compute and to understand (World Bank, 2005,70)

In the last section of this study, the relationship between economic globalization and poverty is investigated by using panel data for 101 countries all around the world over the period 1990 to 2016. Based on the results, it can be asserted that growth is pro poor. Countries wishing to reduce extreme poverty should apply redistributive policies, as the result reveals a positive relationship between income inequality and poverty. Results for all and middle income countries, also denote that democratization is an important factor for reducing extreme poverty. Besides, countries should pay attention to their demographic structures, except for low income countries, as there is a positive relationship between dependency ratio and headcount ratio. Being able to have access to education service is an important matter for people. Policymakers should implement policies which makes education service acquirable for people from every income level. For all countries, life expectancy at birth is negatively associated with poverty. It shows the importance of being able to have access to health service. However, for middle and high income countries, it has a positive relationship with poverty. Such a situation show that for middle and high income countries, health's positive impact on productivity is absorbed. Based on results, except for low income countries, economic globalization leads to a higher level of the poverty level. When it comes to financial globalization, just as economic globalization, except for low income countries, it is positively associated with poverty. Besides, trade globalization has a negative impact on poverty for low and high income countries, but is insignificant for all countries and middle income countries. In the light of these, countries determined to fight against poverty should not liberalize their capital account whereas especially for high and low income countries, liberalizing trade regime is a beneficial policy for fighting against poverty.

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APPENDIX

Appendix 1. Countries

Table 17: List of Countries

Burkina Faso	Guinea	Niger	Uganda
Burundi	Guinea-Bissau	Rwanda	
Central African Republic	Madagascar	Senegal	
Congo Dem.Rep.	Malawi	Sierra Leone	
Ethiopia	Mali	Tanzania	
The Gambia	Nepal	Togo	

Table 18: List of Middle Income Countries

Albania	Cote d'Ivoire	Kenya	Romania	Zambia
Algeria	Dominican Rep.	Kyrgyz Rep.	Russian Federation	
Armenia	Ecuador	Malaysia	South Africa	
Azerbaijan	Egypt	Mexico	Sri Lanka	
Bangladesh	El Salvador	Moldova	Tajikistan	
Bolivia	Georgia	Mongolia	Thailand	
Botswana	Ghana	Morocco	Tunisia	
Brazil	Honduras	Nicaragua	Turkey	
Bulgaria	India	Pakistan	Ukraine	
Cameroon	Indonesia	Panama	Uzbekistan	
China	Iran	Paraguay	Venezuela	
Colombia	Jamaica	Peru	Vietnam	
Costa Rica	Jordan	Philippines	Yemen Rep.	

Table 19: List of High Income Countries

Australia	Greece	Portugal
Austria	Hungary	Slovakia
Canada	Israel	Slovenia
Chile	Italy	Spain
Czechia	Korea Rep.	Sweden
Denmark	Latvia	Switzerland
Estonia	Lithuania	the USA
Finland	The Netherlands	the UK
France	Norway	Uruguay
Germany	Poland	

Appendix 2. Test Results

Table 20: Unit Effect

LR test vs. linear regression	chibar2 (01) = 2557.63 Prob >= chibar2 = 0.0000
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Table 17 indicates existence of unit effect. Table 18 suggests that there is no time effect¹².

Table 21: Time Effect

LR test vs. linear regression	chibar2 (01) = 0.00 Prob >= chibar2 = 1.0000
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Table 22: Hausman Test

	Coefficients		Difference	Standard Errors
	Fixed	Random		
gini	.3580297	.3248175	.0332123	.0137897
demo	-.0581004	-.0563742	-.0017262	.0009529
deprat	.268425	.2950965	-.0266715	.0091478
lgdppc	-14.12348	-13.74812	-.3753615	.3673227
KOF A	.0917235	.0887572	.0029663	.0057896
edu	-.1581086	-.0364435	-.121665	.1020111
Chi2 (6)= 18.15		Prob>chi2= 0.0059		

¹² In model, if dependancy ratio is replaced by life expectancy at birth, that result would not change. Besides as an indicator of globalization, economic globalization is solely used for all tests.

Given the result in table 19, we should prefer fixed effect model.

CURRICULUM VITAE

Name and Surname: Berk ALPER

E- Mail Adress: berkalper93@gmail.com

Educational Background:

Yıldız Technical University, Bachelor of Arts in Economics (2011-2016)

GPA: 3.23

Yıldız Technical University, Master of Arts in Economics (2016-2019)

GPA: 3.29