Exactly 150 years after publication of the Communist Manifesto, inequality looms large on the global agenda. In the United States, the income of the poorest 20 percent of households has declined steadily since the early 1970s. Meanwhile, the income of the richest 20 percent has increased by 15 percent and that of the top 1 percent by more than 100 percent. In Asia, the high concentrations of wealth and power produced by strong growth have been given a new label: crony capitalism. In Russia and Eastern Europe, the end of communism has brought huge income gaps. In Latin America, wealth and income gaps - already the highest in the world in the 1970s - widened dramatically in the 1980s, a decade of no growth and high inflation, and have continued to increase even with the resumption of growth in the 1990s.

At the global level, it seems that the old saw is still correct: The rich get richer and the poor get children. The ratio of average income of the richest country in the world to that of the poorest has risen from about 9 to 1 at the end of the nineteenth century to at least 60 to 1 today. That is, the average family in the United States is 60 times richer than the average family in Ethiopia. Since 1950, the portion of the world's population living in poor countries grew by about 250 percent, while in rich countries the population increased by less than 50 percent. Today, 80 percent of the world's population lives in countries that generate only 20 percent of the world's total income.

Ironically, inequality is growing at a time when the triumph of democracy and open markets was supposed to usher in a new age of freedom and opportunity. In fact, both developments seem to be having the opposite effect. At the end of the twentieth century, Karl Marx's screed against capitalism has metamorphosed into post-Marxist angst about an integrated global market that creates a new divide between well-educated elite workers and their vulnerable unskilled counterparts, gives capital an apparent whip hand over labor, and pushes governments to unravel social safety nets. Meanwhile, the spread of democracy has made more visible the problem of income gaps, which can no longer be blamed on poor politics - not on communism in Eastern Europe and the former Soviet Union nor on military authoritarianism in Latin America. Regularly invoked as the handmaiden of open markets, democracy looks more and more like their accomplice in a vicious circle of inequality and injustice.

Technology plays a central role in the drama of inequality, and it seems to be making the situation worse, not better. The television and the airplane made income gaps more visible, but at least the falling costs and increasing accessibility of communication and transportation reduced actual differences in living standards. The computer, however, represents a whole new production process and creates a world in which the scarce commodities commanding the highest economic returns are information and skills. As information technology spreads (see chart on page 85), will some fundamental
transformation take place that permanently favors an agile and educated minority? Or are we simply in the midst of a prolonged transition, analogous to the one that fooled Marx, to a postindustrial world with an expanded information age middle class?

In fact, postwar progress toward free trade and free politics has been dominated by the expectation of "convergence" - that those now lagging behind, whether nations or groups within nations, will inevitably catch up. But what happens if that expectation fails to materialize? How would the end of convergence affect conduct among nations? Can open and democratic societies endure the strains of high inequality? Will inequality become a lightning rod for dangerous populist rhetoric and self-defeating isolation? Even as we talk of disappearing national borders, is the worldwide phenomenon of inequality creating instead a new set of global rifts?

**WHAT ARE THE FACTS?**

In the United States, where the impact of global integration and the information revolution is probably the most widespread, the facts are sobering. Income inequality in the United States is increasing, not only because of gains at the top, but more disturbingly, because of losses at the bottom (see RELATED ARTICLE, below). The average wage of white male high-school graduates fell 15 percent from 1973 to 1993, and the number of men aged 25 to 54 years earning less than $10,000 a year grew. Possibly for the first time in the nation's history, educational gains may be reinforcing rather than offsetting income inequality: Higher education has become a prerequisite for economic success, but because access to it depends on family income, the poor are at a distinct disadvantage.

Elsewhere, the forces of change - whether the spread of capitalism and global integration, or simply the march of technological progress - have at best reinforced, or at worst exacerbated, high inequality. In Latin America, the ratio of income of the top 20 percent of earners to the bottom is about 16 to 1 (almost 25 to 1 in Brazil, probably the world's most unequal country, compared with about 10 to 1 in the United States and about 5 to 1 in Western Europe). The wage gap between the skilled and the unskilled increased in this decade by more than 30 percent in Peru, 20 percent in Colombia, and nearly 25 percent in Mexico. Ironically, these were the countries with the greatest wage increases.

The situation is less clear but no more heartening in other parts of the world. In China, the liberalization of agricultural and other markets has spurred growth, yet large segments of the population have been left behind. In the affluent countries of northern Europe, increases in poor immigrant populations, growing unemployment, and the stricter fiscal demands of the Maastricht Treaty are undermining the historic commitment of these nations to address inequality.

Economic growth (and for that matter lack of growth) in the postwar era has seemed everywhere to be accompanied by persistent, often high, and sometimes worsening, inequality within countries. The few exceptions include Hong Kong, Korea, Malaysia, Singapore, Taiwan, and Thailand in East Asia where several decades of extraordinarily
high growth saw low and even declining levels of inequality. Even when income distribution does improve, it does so painfully slowly. A study that examined income distribution in 45 countries found that only eight, including Japan and three European nations, showed any improvement in income distribution over any time period, and this progress was minimal.

The idea of convergence of income across countries - that poor countries will ultimately catch up to the rich has also gone by the wayside. China and India illustrate the difficulties of arguing for the eventual convergence in income of poor and rich countries. For the last 15 years, these two nations have experienced faster income growth than the rich countries, yet it would take them almost a century of constant growth at rates higher than those in today's industrialized countries just to reach current U.S. income levels.

WHAT MAKES THE WORLD UNFAIR?

Inequality is nobody's fault and cannot be fixed in our lifetime. Understanding its causes helps us determine what can be done about it and what might actually make it worse. But what are the causes of inequality, across and within countries?

History

Inequality begets inequality. Therefore, history matters. Consider Latin America. The combination of mineral wealth, soils and climate suitable for sugar production, and imported slave labor, or conquered indigenous labor, helped produce two castes: large landowners and politically unarmed workers. In 1950, just 1.5 percent of farm owners in Latin America accounted for 65 percent of all agricultural land; unequal land distribution, then the highest in the world, has risen since. Wealth in natural resources invited concentration of income. History and politics subsequently conspired to produce economic and institutional arrangements that have perpetuated that concentration.

The Poor's Rational Decisions

A source of some inequality lies in predictable human behavior. Because the rich and educated marry each other, as do the poor and uneducated, family income gaps widen. Rational differences in human behavior between the rich and the poor also add to inequality. In many countries, the poor are members of ethnic or racial groups. If they suffer discrimination in the labor market, their gains from schooling and job skills are small, prompting them to respond by investing little in these income-producing assets. But by handicapping their children economically, the sum of these parents' sensible decisions can lock society as a whole into another generation of inequality.

The same happens with fertility. For good reasons, the poor and the less educated tend to have more children. As is to be expected in these poor households, spending per child on nutrition, health, and education declines with the number of children. Less spending on the children of the poor creates a new generation in which the number of unskilled workers grows faster than skilled workers, bringing down wages for the former and thus
perpetuating the cycle. In societies with high population growth (Africa, for example), the education levels of mothers are a major determinant of fertility rates. As poorly educated mothers have many more children than their well-educated sisters, the cycle of high fertility and poor opportunities for their children continues, helping perpetuate inequality in their societies.

East Asia provides an example of how fertility change can break this vicious cycle. A dramatic decline in infant mortality in the region after World War II was followed in the early 1960s by an equally dramatic, and very rapid, decline in fertility - which spread quickly to the poor and less educated. These changes had major demographic consequences: In Korea, for example, the percent of the population in the prime working ages of 25 to 59 rose from less than 35 percent to close to 50 percent between 1965 and 1990, while the percent of children between ages 0 and 14 fell. With this demographic growth in the work force came dramatic increases in savings and investment (from about 15 to 35 percent in Korea and Indonesia) that helped fuel growth. Compared with those of other regions, East Asia's private and household savings and investment rates were especially high - including among poor households that invested heavily in the more affordable education of their fewer children.

Prosperity

Prosperity can produce inequality - an outcome that, within limits, may be economically justifiable. After all, some inequality may encourage innovation and hard work. Newfound inequality in China and in the economies of Eastern Europe may simply mean that new economic incentives are not only inducing growth but also creating opportunities for some individuals to excel and profit.

But the market reforms that bring prosperity also may not give all players an equal shot at the prize. In the short run, privatization and public-sector downsizing will penalize some workers; and open trade, because it hurts formerly protected industries and makes their inefficiencies unsustainable, can lead to wage reductions and higher unemployment. If corruption infects the privatization process, as in Russia, such reforms will provide windfalls to insiders. More insidious for the poor over the long run are the effects of reforms on the value of assets. During the Latin American debt crisis of the 1980s, many high-income citizens of indebted countries were able to store most of their financial assets abroad, even as their governments (and thus, their fellow taxpayers) assumed the bad debts incurred by enterprises either owned or controlled by the rich. Today's lower inflation and more realistic exchange rates mean dollar accounts held abroad can now buy more at home. Similarly, well-connected individuals in emerging markets who had previously profited from cheap credit, subsidized prices for hard foreign currency, or government regulatory exceptions (say, on the use of urban land) benefited again, as economic reforms raised the market value of assets that they had been able to acquire at low cost.

Bad Economic Policy
The most avoidable and thus most disappointing source of inequality are policies that hamper economic growth and fuel inflation - the most devastating outcome of all for the poor. Most populist programs designed to attract the political support of the working class hurt workers in the long run. When financed by unsustainable fiscal largesse, they bring the inflation or high interest rates that exacerbate inequality. Inflation worsens inequality because the poor are forced to hold money and cannot acquire the debts that inflation devalues. High interest rates, driven by unsustainable public debt, crowd out investments and jobs in small and medium enterprises, while encouraging easy gains in government bonds for those with plenty of money. Price controls, usually imposed on the products most consumed by the poor, often lead to their disappearance from stores, as they are hoarded and resold at higher prices. The imposition of a minimum wage temporarily benefits those who have formal jobs but makes it harder for the unemployed to find work. Finally, regulatory privileges, trade protection, and special access to cheap credit and foreign exchange - all bad economic policies - will inevitably increase the profits of a wealthy minority. For all these rear sons, IMF-style reforms, often attacked for hurting the poor majority, are key to ending corrupt practices that usually benefit only a few.

Bad policy also includes what governments fail to do. Failure to invest in the education and skills of the poor is a fundamental cause of inequality. When adequate education does not reach enough of any population, educated workers become scarce, and employers compete for them by offering higher wages. The widening wage gap between college graduates and others in the United States indicates that the demand for graduates still exceeds the supply, feeding inequality. In Brazil, during the 1970s, the salaries of scarce university graduates rose rapidly, worsening wage inequality. In contrast, wage differences in Korea between those with university education and their less-educated colleagues fell, as more and more students completed secondary school and attended universities. In fact, above-average spending on education characterizes each of the few countries that have managed high growth with low inequality in the postwar period.

TEMPTING AND DANGEROUS REMEDIES

Paradoxically, the rhetoric of fairness can encourage policies that worsen global and local inequalities. Some examples of these self-defeating policies include:

Protectionism

Protection from global competition is a dangerous nonremedy, whether it involves import barriers, high import tariffs, or currency controls. Developing countries that have been most open to trade have had the fastest growth, reducing global inequality; those least integrated into global markets, such as many African economies, have remained among the world's poorest. Historically, the same pattern holds. Those countries that aggressively sought commercial links to the outside world - Japan, beginning in the Meiji Era, and the East Asian countries after World War II - whether via technology licensing, openness to foreign investment or an export push, have had the fastest growth. Trade (along with mass migration) explains most of the convergence in income among the
countries of Europe and between them and the United States in the late nineteenth century. Convergence of incomes in Europe stalled as economic links disintegrated from 1914 to 1950 and then resumed in force in the postwar period, when European economies became more integrated.

But does global integration create worsening inequality within countries, rich and poor alike? The growing wage gap in the United States coincides with increasing imports from developing countries that have large pools of unskilled labor. But most research shows that technology is more to blame than trade for most of the U.S. wage gap: Few U.S. workers (probably less than 5 percent) are in industries competing with low-wage goods from developing countries, and the wages of workers without a high-school diploma have fallen as much if not more in nontrade as in trade industries. True, more subtle forces are also at play - for example, the ability of firms to threaten to move jobs overseas may be undermining American unions. But a recourse to protectionism would almost surely hurt poor consumers more than it would help low-skilled workers.

Growing wage inequality is associated with increased trade and integration into global markets even in developing countries. One reason: Foreign capital inflows and higher domestic capital investment create new jobs for skilled workers, and skilled workers' wages then rise faster than average wages. But the bottom line is that international trade and open markets are less of a problem than worldwide changes in the technology of production that favor skilled workers everywhere.

Indeed, increases in trade and economic integration in poor countries, though associated with high wage inequality, may actually reduce inequality of income and consumption. There are two possible reasons:

First, as obstacles to imports fall and price competition intensifies, prices drop - a boon for the poor, who use most of their income for consumption. Second, trade liberalization and open markets in general weaken the unfair advantages enjoyed by the rich and connected, undermining the economic privileges and monopolies (reflected in wealth not wage gaps) that otherwise perpetuate high inequality.

Special Worker Entitlements

President Franklin Roosevelt's New Deal legislation set countrywide wage rates and labor standards for U.S. workers during the 1930s depression. Could a global minimum wage and global labor standards force up wages of the unskilled in poor countries, reducing in-country and worldwide wage gaps?

Advocates of a global New Deal have a point: Property rights remain elaborately protected in the complex codes of international trade agreements, while labor rights remain unacknowledged. Almost all countries can agree on some standards of behavior: the prohibition of slavery and debt bondage, assurance of a reasonable measure of safety in the workplace, a guarantee of rights to collective bargaining. The problem is that in developing countries, even standards that look noncontroversial (the prohibition of child
labor, for example) may hurt those they are meant to protect (see box on page 87). Most standards, including collective bargaining rights, which might increase wages in some firms, would affect only the usually small proportion of workers in the formal urban sector, thus increasing the gap between them and the majority of workers in rural and informal jobs. This result might do little harm if it helped a few without hurting others. But harm to many is likely because higher labor costs would then induce employers to invest in labor-saving technologies. The loss of new jobs would hurt mostly the poor and unskilled, whose main asset, after all, is their own labor.

Weaker infrastructure, unreliable judicial and regulatory regimes, and less education mean workers in developing countries produce less - even in well-equipped export firms. A global New Deal will only work when it is no longer needed: that is, when development progress in poor countries brings worker productivity - now as low as one-third the U.S. level - much closer to rich country levels. Only with convergence of worker productivity (and worker pay) across and within nations - as was the case across the United States in Roosevelt's time - could global rules on workers' rights help rather than hurt those now worse off.

Underpricing Public Services

For decades, governments have monopolized delivery of such public services as water, sanitation, electricity, and health care. They have also charged industries and households much less for these services than they actually cost - all in the name of helping the poor. Mountains of evidence demonstrate two virtually universal results:

First, in the face of any scarcity at all, prices that are too low reduce public supply of the underpriced service. India's public resources will never be sufficient to cover hospital care for its entire population. Short of privatization and adequate meter-based customer charges, electricity services in cities such as Lagos and Karachi will never catch up to demand, and "brownouts" (scheduled times without electricity) will continue.

Second, in the face of any kind of rationing, the poor will be last in line. The guarantee of free university education in Egypt and France, for example, is a false entitlement: Low-income families cannot afford the secondary schooling and tutoring needed to pass the university admissions test. In the Philippines, cheap electricity and water are available to powerful industrial interests, while the poor in the slums rely on jerrybuilt connections and buy bottled water at high prices from private trucks. In Mexico, for decades, general food subsidies benefited the urban middle class and created the incentives for food producers to bribe the politicians and government officials who controlled allocation of these subsidies. Meanwhile, the poor in rural areas and indigenous communities received little if any benefit.

Laissez-Faire Economics

Because trade protection, worker rights, and cheap public services can in fact hurt the poor does not mean the inequality problem can be left to the market. It is one mistake for
government to restrict and distort market activity, reducing competition and perpetuating privileges; it is another to assume that market forces will automatically create opportunities for those at the margin.

Every society has some interest in avoiding the worst forms of inequality and injustice. That means in every society there is a role for government - not only to avoid the creation of unfair advantages for the rich and powerful, but to guarantee equal opportunities that market forces will naturally neglect, especially for those individuals who will otherwise be left on the sidelines. But this brings us to the question of what does work.

WHAT DOES WORK

The false remedies have short-run political appeal. Unfortunately, what does work takes time and patience.

Worker-based Growth

Economic growth that is based on the intensive use of labor reduces income inequality - within as well as across countries. Oil-rich countries such as Venezuela and Nigeria have grown quickly at times, but the advantages of oil, bauxite, copper, and other mineral wealth can be short-lived. An abundance of natural resources invites concentration of income and discourages reliance on people, technology, and skills. Lack of natural resources, meanwhile, can be a hidden blessing, as the sustained and equitable growth of Switzerland and Hong Kong show. The labor-using growth of Taiwan and Singapore has reduced income gaps in those economies and propelled their convergence toward industrial-country income levels over the last three decades.

Worker-based growth is best encouraged by avoiding the wrong policies - those that directly or indirectly raise employers' cost of labor. In countries such as Costa Rica and Ghana, where agriculture is labor-using and generates exports, the correction of overvalued exchange rates (which make imports cheaper for urban consumers) has increased rural jobs and income. In England, and now in Venezuela, relaxation of onerous severance-pay rules has encouraged hiring, inducing employers to substitute people and skills for energy and environmentally costly production inputs. The United States could also encourage more hiring of unskilled workers by reducing payroll tax rates and raising the threshold at which these rates are applied.

Education: The People's Asset

In the increasingly service-oriented global economy, education and skills represent a kind of wealth. They are key assets - and once acquired cannot be taken away, even from those who are otherwise powerless. Moreover, as education is shared more broadly, other assets such as land, stocks, or money will become less important.

It should be no surprise that the best predictor of a child's education is her parents' education and income. The poor, especially in developing countries, are last in line for
education, as well as other publicly financed services. (Among 13 industrialized countries studied, only in Sweden and the Netherlands have educational opportunities become less stratified by socioeconomic class during this century.) So without a jump-start from public policy, the rich will become educated and stay rich, and the poor will not, perpetuating the inequality of assets and income across generations. In the United States, Europe, and in today's poor developing countries, the single best weapon against income inequality is educating the poor.

Other mechanisms to distribute and redistribute assets, including land reform and microcredit programs, can also improve the pattern by which income is distributed. Pension reforms in Chile, Mexico, Peru, and elsewhere in Latin America have the potential to reduce the disequalizing characteristics of traditional pay-as-you-go systems and to create stakeholders in a market economy among those once excluded from its benefits. In the United States, the current arguments against "privatizing" social security reflect in part the myth that traditional systems are highly redistributive. Much evidence suggests that this is not necessarily true.

**Democracy**

Relatively low levels of income inequality in China, Cuba, and the former Soviet Union seem to suggest that authoritarian politics can at least produce equality. But in fact, it is the Western democracies that have over time generated sustained and equalizing economic growth. In economically unequal societies, the one-person, one-vote system can offset the ability of the economically powerful to perpetuate their privileges by buying political power. Perhaps this is why the market today sees greater risk of social disorder fed by political privilege in Indonesia than in its more democratic neighbors, such as Thailand and Korea. In today's global market, good politics is good for equalizing growth.

**Opportunities, Not Transfers**

Although transfers and income subsidies to help the poor or reduce inequality make sense on paper, they are not long-run solutions. As declining spending on income-tied welfare programs in the United States shows, transfers and subsidies tied to low income are politically difficult to sustain. In fact, because the poor tend to be less organized and politically effective, redistributive programs often respond to more vocal entrenched interests, transforming these initiatives into a regressive tax rather than a safety net. For example, Senegal's program to cushion the effects of its economic reforms channeled state money to privileged groups within the system (civil servants and university graduates), while doing nothing to protect the urban and rural poor from rising consumer prices and unemployment. Often, even those subsidies originally meant for the poor are quickly captured by the middle class and the rich, as ample public spending on university education in California suggests. Finally, the taxes that pay for large transfer programs are increasingly regressive. Because global competition puts pressure on governments to reduce taxes on footloose capital and highly mobile skilled labor, workers and consumers
must bear more of the tax burden associated with redistributive transfers, mainly in the form of growing payroll and sales taxes.

Public spending for the poor is more effective in the long run and politically more attractive when it enhances opportunities. But for such public spending to be effective, two rules must prevail: First, spending should concentrate on programs that reach everyone but benefit the poor most - in the United States, secondary education, child care, and immunizations. Second, the poor's access to opportunities should be improved not by directly providing services, but by giving them tax breaks and vouchers for school, health, and housing, which would help them become effective consumers. In Chile, public spending on universal services and on voucher-like programs ensures that more than 80 percent of all public health-care services and 60 percent of all education services go to the poorest 40 percent of households - raising the total income of the poorest one-fifth of households by nearly 50 percent.

Strengthen Domestic Policies for Global Integration

It bears repeating that the poorest countries of the world are those least integrated into global markets; the facts are so obvious that most poor developing countries have joined the bandwagon of unilateral trade opening. Since global markets reward skilled over unskilled labor, poor countries are adjusting to their growing wage inequality by increasing spending on education and training.

Then again, industrial countries are highly integrated among themselves but still relatively closed to poor country products and services. Rich countries could significantly ease global inequality by lifting their barriers to imports of agriculture and manufactured textiles. But progress against protection often implies visible short-run costs to communities and workers. Programs to retrain those workers hurt by opening markets in rich countries, and to top up their wages if they accept a lower-paying job, would reduce income inequality at home and indirectly around the world.

LEARNING TO LIVE WITH INEQUALITY

Any hopes for a quick fix to inequality are misplaced. Belying Marx, the biggest story of the last 150 years has been the emergence in the West of a prosperous and stable middle class. But it took time. During a long transition from agriculture to industry, changes in production and in the structure of employment caused wrenching inequality. Much inequality today may be the natural outcome of what is an analogous transition from an industrial to an information age.

Still, there is no reason to despair. Some inequality is healthy and will speed the transition. The rapidly growing wages of the educated and skilled are making education and training much more attractive personal investments. As more people get greater access to education, their relative income advantage over the unskilled will decline. Meanwhile, the high cost of skilled workers should eventually induce technological
change that relies more on unskilled labor, increasing the demand for workers with less training.

More fundamentally, people may care less about their current ranking in a static picture of global income distribution than about just and fair access to a better future, especially for their children. In an unequal world, good opportunities represent fair rules and matter at least as much as current status. Greater opportunities - which can be delivered today - are a better guarantee of a socially coherent global community than improved distribution tomorrow.

The real danger is that growing inequality may become a lightning rod for populist rhetoric and self-defeating isolation. It would be unfortunate if such tempting but false remedies eclipsed the more promising policies - international and domestic - that can help the world manage the long transition to a less-divided postindustrial future.

WANT TO KNOW MORE?

argues for individual accounts in "The Pension Crisis: The Case for Privatization" (Foreign Affairs, July/August 1997).

For links to relevant Web sites, as well as a comprehensive index of related articles, access www.foreignpolicy.com.

RELATED ARTICLE: The Not-So-Great Leveler

Income inequality has been worsening in the United States since the early 1970s. Before 1973, all groups enjoyed healthy income gains, particularly the middle class. However, since 1979, the rich have gained far more than the middle class, while the income of the poor has fallen in absolute terms. A recent study found that the richest 1 percent of families (average annual income: $800,000 for a family of four) captured 70 percent of the total rise in family income in the United States between 1977 and 1989.

America has always been considered a land of opportunity, where parents believe in the possibility of a "better life" for their children. Does upward mobility mean growing inequality is unimportant, since, with effort and a bit of luck, those at the bottom can still move toward the top?

Not exactly. First of all, we know that historically high rates of mobility in the United States resulted from fast economic growth that was shared across the board. Today, growth benefits the wealthy far more than the middle class, let alone the poor.

Second, although many families do move from one income category to another over time, individuals have suffered larger downward, and smaller upward, income changes since the 1970s - with the exception of the rich, whose earnings have jumped dramatically.

Third, though education has always been seen as the great leveler, it now reinforces initial advantages instead of compensating for initial handicaps. Because most elementary and secondary schools fail to provide students with basic skills, they no longer effectively make up for deep inequalities among children - in terms of their home environments, parents' help and expectations, preschool experiences, and out-of-school activities.

In addition, the high-school diploma - once a ticket to the job market for the working class - has lost its value. U.S. employers now resist on a college education as a measure of competence. And the children of the rich have always been more likely to go on to college. In 1995, 83 percent of high-school graduates from the wealthiest families (the top 20 percent of all households) enrolled in college, compared with 34 percent from the poorest (the bottom 20 percent).

So, if America is to remain the land of opportunity, elementary and secondary education must work for the poor. Otherwise, inequality of income will come to reflect not just differences in motivation, work effort, and sheer luck among players in a fair game, but different rules for rich and poor.
At first glance, abolition of child labor looks like one of the few labor standards on which everyone could agree. An estimated 250 million children under the age of 14 work. Some 60 million of these are under the age of 10; of those who are older, one-half work nine or more hours a day enough to interfere with their normal development.

These statistics and the horror stories often behind them have inspired worldwide action, from the creation of new NGOS, such as Free the Children, to this year's Global March Against Child Labor, a five-month demonstration spanning Africa, the Americas, Asia, and Europe. Meanwhile, consumer outrage has prompted multinational corporations such as Nike and the Gap to adopt codes of conduct (which prohibit child labor in their factories abroad) and attach "child labor-free" labels to the products they sell.

But do these initiatives make poor children in developing countries better off? Probably not. In many cases, a child's income defines the difference between destitution and mere "poverty" for a struggling family. Without it, indigence (earnings per capita of less than $1 a day) would more than double among many of these households; in urban Latin America, for example, the incidence of poverty in low-income households would rise 10 to 20 percent without the earnings contributed by working children.

When children work because they must, banning their labor can actually make them worse off. Legally invisible, they may end up working anyway - unprotected by laws that prohibit long hours, abusive treatment, and hazardous conditions. Business codes of conduct are just slightly better. They affect only a small percentage of child workers in organized export industries and may simply drive children into lower paying, and more dangerous, work in the streets. Labeling programs do have one advantage: The levies that participating firms pay can be used to educate child workers, subsidize parents who send their working children to school, or create local partnership between employers and community groups that monitor working conditions.

Unfortunately, these efforts to deal with child labor may also blind people to a more troubling bottom line: The real solution to the exploitation of child workers involves the complex business of economic growth and development in poor countries.

NANCY BIRDSALL is executive vice-president of the Inter-American Development Bank.

COPYRIGHT 1998 Carnegie Endowment for International Peace

See also  http://www.mtholyoke.edu/acad/intrel/birdsall.htm