



Globalization and Trade and Poverty: Crash Course Economics #16

Crash Course: Economics

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===== Introduction =====

(0:01) - Adriene: Welcome to Crash Course Economics, I'm Adriene Hill.

(0:04) - Jacob: And I'm Jacob Clifford, and today we're talking about poverty and extreme poverty, which are not easy problems to talk about, and not easy problems to fix.

(0:11) - Adriene: But just because the problem is difficult doesn't mean we shouldn't try to understand it. So let's get into it.

(0:15) (Intro)

===== Background =====

(0:24) - Jacob: Back in the 1990's the United Nations created eight Millennium Development Goals, with a deadline of 2015. The goals included things like reducing child mortality, promoting gender equality, and combating major diseases. But the first on the list was to eradicate extreme poverty and hunger. Now, poverty means different things in different countries because there's different standards of living around the world.

(0:43) - In the U.S. a person is officially living in poverty if they make less than \$11,770 a year, around \$32 a day. This is called the "poverty line" or "poverty threshold", but we're gonna focus on extreme poverty, which according to the U.N. is "a condition characterized by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information."

(1:07) - The U.N. defines "extreme" or "absolute poverty" as living on less than \$1.25 a day. The goals set by the U.N. was to reduce the number of people living in extreme poverty by half. Well, it's 2015, and the U.N. report that 836 million people still live in extreme poverty. But that's down from 1.9 billion, so success. Or at least a lot of progress. And the World Bank predicts that by 2030 the number of people living in extreme poverty could drop to less than 400 million. Of course, that assumes everything will keep improving as it has. But there's an asterisk here. Climate change is a threat to these improvements in global poverty.

(1:40) - Adriene: So we're moving in the right direction, but we're talking about extreme poverty. Most people who've been lifted out of extreme poverty are still poor. Really poor. And being poor comes with serious problems, from disease to lack of water. Income inequality is rampant, and one in seven people still live without electricity.

(2:01) - So why is extreme poverty falling? The answer to this is really complicated. A bunch of factors like better access to education, humanitarian aid, and the policies of international organizations like the U.N. have made a difference. But the greatest contributor is globalization and trade. The world's economies and cultures have become more interconnected and free trade has driven the growth of many developing economies.

===== Thought Bubble =====

(2:24) - Let's go to the Thought Bubble. World trade has been growing since the end of the World War II. Free trade agreements and technological advances in transportation and communication mean goods and services move around the world more easily than ever. And we're talking everything. From shoes and bananas, to

innovations and ideas.

(2:41) - Take mobile phones. Mobile phones are pretty much good for everything, including reducing poverty. According to economist Jeffrey Sachs, mobile phones are the "single most transformative technology" when it comes to the developing world. Phones give people access to banking and payment systems. Better access to education and information. In some places mobile phones help farmers get information and get the best price for the stuff they're producing. Installing cell phone towers is also a lot cheaper than running thousands of kilometers of telephone lines.

(3:12) - Economists call this "leapfrogging". The idea that countries can skip straight to more efficient and cost effective technologies that weren't available in the past. International trade has also created new opportunities for people to sell their products and labor in a global marketplace. There are some significant downsides to globalized trade. But the statistician Hans Rosling made this point: "The one to two billion poorest in the world, who don't have food for the day, suffer from the worst disease: globalization deficiency. The way globalization is occurring could be much better, but the worst thing is not being part of it."

===== Competition =====

(3:38) - Jacob: Thanks, Thought Bubble. So globalization is the result of companies trying to outmaneuver their competitors. While you search for the cheapest place to buy shoes, companies search for the cheapest place to make those shoes. They find the cheapest sources of leather, dye, rubber, and of course, labor. The end result is that labor intensive products like shoes are often produced in countries with the lowest wages, and the weakest regulations.

(4:09) - This process creates winners and losers. The winners include corporations and their stockholders, who earn more profit, but also consumers who get products at a cheaper price. The losers are high wage workers who used to make those shoes, their jobs moved overseas. But what about the low wage foreign workers? Are they winning or losing? Well, a lot of workers are thrown into hazardous working conditions, but it's also true that many workers in developing countries are at least making more money.

(4:31) - These jobs pay above average wages. People want these jobs and although the pay would be unacceptable in developed countries, they're often the best alternative. And the multiplier effect means that more money is being spent on local businesses, so these jobs create jobs. According to the economist Paul Krugman "The Bangladeshi apparel industry is going to consist of what we would consider sweatshops, or it wouldn't exist at all. And Bangladesh, in particular, really really needs its apparel industry; it's pretty much the only thing keeping its economy afloat."

===== Opponents of Globalization =====

(4:56) - Adriene: But not everyone agrees. Opponents of globalization called outsourcing of jobs "exploitation and oppression", a form of economic colonialism that put profits before people. A few call for protectionist policies like higher tariffs and limitations on outsourcing. But others focus on the foreign workers themselves by demanding they receive higher wages and more protections.

(5:19) - The root of many arguments against globalization is that companies don't have to follow the same rules they do in developed countries. Some developing countries have no minimum wage laws.



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They don't have regulations that provide safe working conditions, or protect the environment. And although nearly every country banned child labor, those laws are not always enforced.

(5:40) - But in the absence of regulation, it's still possible workers won't be horribly mistreated. First, public awareness is growing, along with pressure from the international community to take steps to protect workers. For example, the U.S. produces an annual publication called "The List of Goods Produced by Child Labor or Forced Labor". If a company is buying products from that list, they're likely to get blasted by officials and the media.

(6:04) - So awareness is the first step to improvement. The second step comes from those who support globalization. The pro-globalization set argued that as developing economies grow there are more opportunities for workers, which leads to more competition for labor, and higher wages.

(6:22) - Jacob: Perhaps the strongest argument against globalization is its lack of sustainability. Many experts don't think the planet can sustain a growing global economy. Deforestation, pollution, and climate change aren't gonna fix themselves. Especially if increases in living standards lead people to demand more consumer goods like cars, and meat, and smartphones.

(6:39) - Globalization has helped millions of people get out of extreme poverty, but the challenge of the future is to lift up the poor while at the same time keeping the planet livable.

===== Microcredits =====

(6:47) - Adriene: One of the best ways to help those in extreme poverty is to enable them to participate in the economy. This applies to developing countries in the global marketplace, but also to individuals at the local level.

(6:59) - A perfect example is microcredit. In 2006 a Bangladeshi professor named Muhammad Yunus won the Nobel Peace Prize for implementing a simple idea. He gave small loans, on average around \$100, to low-income people in rural areas. The borrowers, who are mostly female, often used the money to fund plans that could raise their income. For example, they started small businesses.

(7:21) - "Microcredit was a success and has since spread to developing countries throughout the world. Private lenders, governments, and nonprofit organizations have jumped onboard to loan billions of dollars to the world's most disadvantaged."

(7:34) - By itself, microcredit isn't going to solve the problem of extreme poverty, but it supports the idea that enabling people to participate in the economy can make their lives better. Yunus explains "In my experience, poor people are the world's greatest entrepreneurs. Every day, they must innovate in order to survive. They remain poor because they do not have the opportunities to turn their creativity into sustainable income."

(7:59) - Microcredit, when it works, allows people to improve their lives by participating in the economy on their own terms. But we can't forget, a lot of people who participate in the global economy aren't doing it on their own terms. Many of the people who emerged from extreme poverty in the last 25 years have jobs, wages, and working conditions that would be unthinkable in the developed world.

===== Conclusion =====

(8:21) - Economists say that's okay, it's progress, but it's progress that's awfully hard to stomach. Thanks for watching, we'll see you next week.

(8:31) - Jacob: Crash Course Economics was made with the help of all these nice people. You can support Crash Course at Patreon, where you can help keep Crash Course free for everyone forever, and get great rewards. Thanks for watching, and DFTBA.