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Globalisation, inequality and climate change: what difference does China make?

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Abstract

The deepening of globalisation in the late 20th Century saw accelerating climate change, growing inequality and obstinate levels of poverty, not just in low-income economies, but also in the EU and the rest of the high-income world. These outcomes can be traced directly to the workings of the global economy.

These developments suggest a limit to deepening globalisation. Global production systems are environmentally unsustainable; global excess production capacity is leading to a race to the bottom in wages for many, not just in the developing world. China's access to the global economy, with its overwhelming resource hunger and large and educated labour force, exacerbates these developments. Indian development is around the corner.

What can be done? Global production systems need to be truncated and growth needs to become more local. China, India and other newly emergent Asian economies need to be drawn into the discussions and institutions of global governance.

Globalisation-Triumphalism

In 1957 the Russians launched the first satellite – the Sputnik. The fact that the Russians had got into space first came as a great shock to the Americans. They responded with a crash investment programme in the training of scientists and technologists. Marie Jahoda, calculated that if this increase in Human Resource investment had been sustained over the decades, by 1992 there would be two scientists for every man, woman and dog in America (Jahoda, 1973). In so doing, she graphically illustrated the danger of the exponential extrapolation of current trends!

We are currently in the midst of a period of globalisation-triumphalism, the belief that the forces of globalisation are unstoppable, that there will be no end to the ever-deepening and ever-widening removal of the cross-border barriers to the flows of products, production factors (people and capital), ideas and technology. The view that globalisation is unstoppable echoes that of an earlier era, the period ending with the First World War. The last decades of the nineteenth century represented a similar phase of rapidly deepening global integration. Yet it came to an end in an abrupt and brutal form, with the loss of many millions of lives, and it was only half a century later that we entered a new phase of global integration.

To some extent the “irreversibility” of globalisation reflects the hegemonic power of global capital and institutions of global governance. For example, The World Bank’s influential assessment in 2002 of the link between poverty and deepening globalisation forcefully promoted the case for further globalisation, notably through rapid growth in developing country exports of manufactures. Although the Bank recognised that there was some dispute about the evidence, it pulled few punches - “the doubts that one can retain about each individual study threaten to block our view of the overall forest of evidence. Even though no one study has established that openness to trade has unambiguously helped the representative Third World economy, the preponderance of evidence supports this conclusion” (World Bank, 2002: xi).

The primary reason for the descent of the global economy into war in the early years of the twentieth century was the failure of the old imperial powers to allow a new entrant – Germany – to play a key role in the forming of global architecture. A similar challenge faces the global regime now that dynamic new entrants from the East are rising in the economic league and will soon be seeking to have this reflected in the role they play in the fashioning of the global political and institutional architecture.

This paper addresses the sustainability of the global system, and will do so by focusing on the three themes (Kaplinsky, 2005). The first is to understand how the very nature of capitalist development leads to the degradation of the global commons, to global warming and to climate chaos. Second, it is also in the very nature of current processes of globalisation that inequality deepens and poverty endures. Third, this combination of environmental impacts and inequality sets up internal contradictions which are likely to undermine the very sustainability of the globalisation process itself. All of this leads us to question globalisation-triumphalism and requires us to think about new and innovative ways in which humankind can continue to survive.

The Innovation Imperative, the Environment and Global Warming

There are many reasons why the command-economies of the soviet system collapsed. But perhaps the most important is that they failed to deliver the goods. That is, they neither grew as rapidly or delivered the quality and variety of goods of their capitalist counterparts. Joseph Schumpeter, an Austrian economist of the mid-twentieth century, provided the explanation for this systemic deficiency (Schumpeter, 1942). Schumpeter showed how the very breathing of the capitalist economy requires innovation – entrepreneurs, confronted by the intensity of competition which undermines profitability, escape these competitive pressures by introducing new products and processes. Innovation and expansion are the basis of the capitalist system, they are its internal motor.

Writing some centuries before Schumpeter, Adam Smith provided the key to understand how this accumulating motor of capitalism fuels a *globalising* economy. Using an example of a pin factory, Smith showed how the division of labour led to an increase in productivity. Moreover, he argued, “the division of labour depends on the extent of the market” – that is, the bigger the market, the greater the division of labour, the greater the gains in productivity, and the higher the profit to the innovating capitalist. So, to cut a long story short:

- capitalism triumphs because of its ability to innovate and grow faster
- more than that, innovation and growth are at the heart of the capitalist system
- increasingly, this growth takes a global form, as new large scale technologies develop; new forms of firm- and factory-organisation result in increasingly global value chains producing for global markets
- amongst other things, global value chains and global markets require transport, and transport uses energy.

This ever-expanding global system makes enormous demands on the environment. There is no need here to go into the extent of these resource demands, nor the impact which this is having on the global climate. Forget for the moment the localised pollution which results from the ever-deepening exploitation of the earth's biosphere – the pesticides in cotton production, the mesothelioma arising from asbestos production, the pollution of Alaskan waters through oil-spillages. As we are increasingly aware, these localised environmental impacts pale into insignificance when we see the rapidly-growing impact on the global climate. We are not just in an era of global warming and climate change, but one of growing unpredictability and climate chaos (Sachs, 2006)..

The global capitalist accumulation system is making greater demands on the biosphere than it can sustain; the accumulation motor needs to either be switched off, or perhaps even to be put in reverse. At the very least the energy-intensity of this innovation system needs to be reversed (Stern, 2006).

The Innovation Imperative, and Global Poverty and Inequality

One branch of economic theory – indeed the dominant branch of economic theory - holds that whatever else, the extension of the global accumulating system helps to reduce global poverty and inequality. Global specialisation fosters growth, and trade leads to the equalisation of product prices, which in turn feeds through into an equalisation of factor prices across national boundaries (the Heckscher-Ohlin and Stolper-Samuelson theorems). The logic is as follows. First, as Adam Smith had argued, the division of labour increases productivity – the more who participate and the finer the consequent division of labour, the greater the potential to relieve global hunger and global poverty through productivity growth. Second, every firm and country has its own particular skills and resources. Therefore, so the theory goes, if every producer or country specialises in its own area of relative expertise (its comparative advantage), and then trades its output to buy something which another firm or country produces relatively more effectively, than not only will productivity increase, but human welfare will be enhanced .

This is the theory of comparative advantage which underlies modern trade theory and can be traced back to the writings of Adam Smith and David Ricardo in the late eighteenth and early nineteenth centuries (Smith, 1776; Ricardo, 1817). It provides a particular perspective on global poverty, one which sees it as a *residual* phenomenon. That is, global poverty can be seen as a temporary condition, a condition which can be alleviated if all producers specialise in their areas of comparative advantage and enter the global system – the poor remain poor because they fail to join in. In the words of the World Bank, “[i]n sum, global economic integration has supported poverty reduction and should not be reversed” (World Bank, 2002: xi).

There is, however, a key assumption in the intellectual architecture of this win-win approach to globalisation of which David Ricardo was fully aware. Specialisation in areas of comparative advantage only leads to a win-win outcome in a world of full employment, that is, if all producers have a role to play, a product to produce which someone else both wants and can afford to buy. But, what happens if this world of full employment does not exist?

Here we need to be informed by both Malthus and Marx. Malthus, writing in the same era as Adam Smith, argued that the growth of population would exceed the capacity of humankind to produce the necessities required to feed it. He was wrong of course in the sense that our *present* innovating and highly productive production system is clearly able to feed the world’s *current* population (in principle, if not in practice). But can it continue to do so on a *sustainable* basis, or will our demands for present consumption undermine our capacity to deliver adequate consumption in the future (Sachs, 2006)?

Marx, too, had something to say of relevance to the win-win outcome to globalisation. He argued that the technical progress in the capitalist innovation system was inherently labour saving (a rise in the “organic composition of capital”), and that this led to a systemic tendency towards a Malthusian “reserve army of

labour” (Marx, 1876). He believed that the world of full employment was a figment of the economists dream world. In an environment of surplus labour, where productive capacities exceed consumption (where supply exceeds effective demand), there is a “race to the bottom” for all those who do not have unique capabilities to offer. They are subject to the intensity of global competition. In this race to the bottom, global poverty is not so much residual, but “*relational*”, that is, a direct consequence of the workings of the global system (Bernstein, 1990).

So, what do the facts show?¹ Let us begin with poverty understood as an *absolute* condition, focusing on the \$1 per day target which is the key Millennium Development Goal. By World Bank estimates, the number of people living below the \$1/day level has fallen, from 1,219 million in 1990 to around 1,000 million people in 2004 (although there are many doubts about the accuracy of these figures). However, the improvement in the absolute numbers living above the poverty line arose almost entirely from the good growth performance of east Asia in general, and China in particular. The numbers living in absolute poverty rose between 1993 and 2004 in SSA, Latin America and South Asia.² If the East Asian countries are excluded from the total, then the proportion of the world’s population living below the \$1/day line was stable and the absolute number living below \$1/day rose.

Viewing poverty as a *relative* issue in relation to income distribution, the outcome has been unambiguous. In virtually every respect, as globalisation has deepened, so the distribution of income within and between countries, regions, classes and genders has worsened (Cornia and Court, 2001; Kaplinsky, 2005). The only major exception to this is a particular measure of global income distribution, where weighted by population, the inter-country distribution of income has got more equal. But this is wholly due to the very rapid growth in China, with 20 percent of global population (Milanovic, 2003). But the irony is that at the same time the distribution of income in China has worsened dramatically – it has moved from being one of the world’s most equal to one of the world’s most unequal economies in a couple of decades (Khan, 1999; World Bank, 2002).

How important is China to these poverty outcomes? The answer is - very. As we have seen, the falling number in the global poor reflects rapid growth in China. But the rising number of global poor outside of China is largely a consequence of the growing global competitiveness of east Asia in general, and China in particular. If we focus on the manufacturing sector for example, China’s share of developing country manufacturing value added rose from 10.2 percent in 1985 to 29.3 percent in 2000; in the same period, its share of developing country manufacturing exports rose from 7.6 to 24 percent (Kaplinsky, 2005). The consequence for most developing countries was a sharp increase in competitive price pressures for their exports. Developing country manufactured export prices fell more than those for high income country manufactured exports, and the greater China’s participation in these export markets, the more prices have fallen (ibid).

¹ See Kaplinsky (2005) for an analysis of the detailed trends on absolute poverty and inequality.

² http://siteresources.worldbank.org/DATASTATISTICS/Resources/reg_wdi.pdf, accessed 17th September 2007.

The outcome for African developing countries has been particularly severe. 2005 saw the virtual end of controls on China's clothing and textile exports. By the end of November 2006, the cumulative fall in the exports of SSA economies which had previously made significant progress in exporting clothing to the US under the AGOA preferential trading scheme, was 26 percent. In the case of two of the poorest African economies, Lesotho and Swaziland, employment in the clothing and textile sectors (virtually their only form of manufacturing activity) fell by 29 and 56 percent respectively in a single year (Kaplinsky and Morris, 2006).

China has also played an important role in the worsening distribution of income. Essentially the relative gainers in the recent era of global competition have been those able to insulate themselves from global competition – high-end professionals, celebrities, sportspeople, innovators, and so on. Those people subject to global competitive pressures – unskilled workers and increasingly also semi-skilled and IT workers – have experienced growing levels of unemployment and seen their relative incomes decline (Hira 2004). This has not just been a phenomenon experienced in low income developing countries, but in the rich countries as well, where income distribution has tended to worsen significantly over the past decade or two (Cornia and Court, 2001.). In the UK, for example, the minimum wage is lower in real terms than it was two decades ago (Toynbee, 2003). A recent paper by Dew-Becker and Gordon highlights some astonishing trends in this distributional pattern. Focusing on the US between 1966 and 2001, they calculate that the median real wage grew by only 11 percent in real terms, rising at 0.3 percent per annum. This compares with an increase of productivity growth of 1.57 percent per annum, and a growth in real incomes of the top one-tenth of the top one percent (ie the 99.9th percentile) of 5.6 per cent per annum. They conclude that ' [m]ore of the income change [between 1966 and 2001] accrued to the top one percent than the entire lower 50 percent, and more accrued to the top 1/100 percent than to the top 20 percent' (Dew-Becker and Gordon, 2005: 36).

Will things improve, will these global labour markets tighten? Almost certainly not. The total industrial labour force in the 14 largest OECD economies in 2002 was 79 million. In the same year, China's manufacturing sector employed 83 million (Kaplinsky, 2005). But, more to the point, it is estimated that China's reserve army of labour – those waiting to enter paid employment and currently working in very low productivity activities – was in excess of 150 million. To make matters worse, an increasing number of this labour force is educated and skilled, and if that was not bad enough, by 2020, India's labour force will exceed that of China. There are no signs of the global reserve army of labour drying up.

What does this portend for the sustainability of globalisation?

What do these observations about the environment, climate and income distribution have to tell us about the sustainability of globalisation? They suggest that globalisation suffers from three "internal contradictions", that is developments which arise from its very success but which at the same time threaten its very future.

First, the current trajectory of continued global growth is quite clearly unsustainable in environmental terms (Stern, 2006). The energy required to transport products in

extended global value chains is placing impossible demands on the planetary biosphere. If humankind gets round to taking action to stop global warming and climate chaos, this will necessarily have to be at the expense of the current trajectory of energy-intensive production systems, probably through much higher prices for energy. The logic of shipping low-value vegetables, fruit and components around the world will be lost and profitable production systems will necessarily place a greater emphasis on proximity. “Food miles”, for example, are rapidly ascending in consumer consciousness as they ponder the rapidly evolving change in global climate patterns.

Second, and this is perhaps more contentious, I see a direct link between the hegemonic success of globalisation and the rise of global terrorism. The argument goes as follows.³ In the early years of the 21st century, for the first time more than half of the world’s population lived in cities (UN-Habitat, 2003). Whereas the cities of earlier centuries has been places of industry, modern cities have become dumping grounds for the dispossessed and marginalised. As a consequence, urban politics have moved from class-based allegiances to pre-modernist, millenarian and faith-based affiliations – the religious right of the north, fundamentalist Islam and Judaism in the middle east and Asia, and Pentecostal churches in Latin America and Africa. In many respects they represent the politics of the dispossessed.

Through its “cultural” extension of TV, films, printed media and especially advertising, globalisation has spread a pattern of behaviour and values which has become increasingly offensive to the dispossessed and has been taken up by the fundamentalist faiths.⁴ The response of some of these has been to attack the many manifestations of globalisation - the “World Trade Center” (the name itself evokes the hegemony of global processes), and tourist centres associated with western values (night clubs in Bali). But where will it end, and what impact will it have on the very sustainability of globalisation itself? What impact might attacks on the communications infrastructure – the arteries of globalisation - have on the sustainability of globalisation? It is unfortunately not too fanciful to envisage strategically-placed bombs in shipping containers – indeed the US is currently taking active steps to reduce the likelihood of such attacks. Nor can we rule-out the possibility of suicide attacks in prominent airports, taking tourists hostage, or strikes against foreign business-people.

There is a third endogenous factor which might undermine the sustainability of contemporary globalisation. Globalisation forces alterations in economic specialisation. The result is frequent and significant change in employment patterns, in work-organisation and institutional design. Perhaps more importantly, it has also led to significant changes in the pattern of income distribution (see above). There are two key consequences of these related changes. The first is that life appears to have become more insecure for many, including for articulate professionals in the high-income economies. Some years ago Robert Reich, a sometime Secretary of State for Labor in the Clinton administration, wrote insightfully on this issue (Reich, 1991). He observed that the US had a large and growing “underclass”; on top of this

³ Here I am informed by a recent book by Mike Davis – Davis, 2004.

⁴ Curiously, many of the leaders of this fundamentalism were themselves privileged beneficiaries of globalisation, but they drew on the support of masses of the “losers”, who are excluded from many of the fruits of globalisation.

underclass, by definition, was an “overclass”. This, said Reich was not new, But what was new was the character of the in-between category – “the anxious class”. To a significant extent this growing anxiety and unease is a direct consequence of the imperative for continual “re-invention” forced by global competition. Jack Welch, former CEO of General Electric (GE) in the US, was widely considered to be one of the select number of truly influential management innovators during the 1990s. His philosophy was to force a regular turnover of staff in all GE subsidiaries, however well they were performing. Managers were expected to evaluate and “weed-out” the least-well-performing group of employees on an annual basis however competent they were in performing their allocated tasks. In the early years of the millennium, GE promoted a “70:70:70 policy” – 70 percent of activities to be outsourced; 70 percent of this outsourcing to be offshored (that is, sent abroad); and 70 percent of this offshoring to go to low-wage economies. It is an agenda of uncertainty, distrust and fear. This is echoed in the world-view of the head of Intel, Andy Groves, who wrote a best-seller entitled “Only the paranoid survive” (Groves, 1996). In each case the prognosis was change – “reinvention”, “reorganisation”, “business process engineering” – an ongoing agenda not just in the private sector but even in state-owned bureaucracies such as the UK’s National Health Service and educational systems. It is a world of insecurity, fear and anxiety, and one which threatens to engender opposition to globalisation, the more so as the professional classes in the high-income economies are now being threatened by the offshoring of their own jobs to India and other lower-wage economies.

It is not just that the changes induced by globalisation have led to widespread fear and anxiety (including amongst the articulate professional classes in high-income economies), but as I have argued above, it has also resulted in growing inequality. The rich are increasingly confident and bold, with a widespread tendency to flaunt their wealth. We know from previous eras in economic and political history that the impetus for social change comes not so much from changes in absolute deprivation, but from relative deprivation (Runciman, 1966), and it is this which perhaps above all threatens the sustainability of globalisation.

The lessons of the nineteenth century provide an important backdrop in understanding these possible developments in the early twenty-first century (Williamson, 1998). After five to six decades of growing global integration, the world economy turned inwards after 1914, and the outward momentum was only regained in the decades after 1950. In between saw a period of inward focus, and a reduction in economic integration. This reversal of global processes followed directly from the very success of late-nineteenth century integration. Cheap grain imports into continental Europe led to a decline in agricultural profits. This resulted in the imposition of tariffs against agricultural imports in much of Europe. Second, there was a mass migration of unskilled Europeans into the US as 60 million people, often literally walking across Europe, made their way to the US between 1820 and 1914. This forced down relative wages in North America, and led to growing controls against migration. At the same time the competitiveness of European manufactures threatened the survival of the US’s nascent manufacturing sector. This resulted in the imposition of tariffs against manufactures. And, finally, the demand for growing markets and resources led to the expansion of colonialism. This spurred the imperialist rivalries which helped to fuel World War 1. In each case, the seeds of

change are to be found in the very workings of the nineteenth century global economy, and arose as a direct consequence of its success.

What is to be done?

We are accustomed to think positively, to find a solution for every problem. This is just as well, since the threats confronting humankind in general, and the historically-advantaged west in particular, are very substantial. I cannot pretend that I have an answer to the growing problems besetting the globalising economy, but there are three issues which I think need to be addressed.

First and foremost is the environmental challenge in general, and climate change in particular. The aggregate numbers are overwhelming – the biosphere simply cannot withstand the pressures which sustained global growth will place on it. This has multiple consequences. We need to find a more efficient path for the generation, distribution and consumption of energy, developing a range of energy-saving technologies and organisational structures. More rational – that is higher - energy-pricing is one part of the solution, but it is only one. If it is the only solution, then higher energy prices will exacerbate the gap between the global haves and the global have-nots, both within and between countries. But we also need to reduce material consumption patterns in the rich countries, placing greater emphasis on leisure and services, particularly if consumption in the developing world is going to grow as living standards are raised. China adds a new coal-powered power-station every four days, and however efficient new forms of carbon-capture might be, the expansion of energy consumption in the emerging economies is only environmentally sustainable if consumption in high income countries is reduced.

Second, for many people and many countries, globalisation is less a route to higher living standards and more a force of immiserisation (Kaplinsky, 2005). The injunction to deepening globalisation involves a fallacy of composition – that is, it works for individual countries, acting in isolation, but not when all countries follow the same route (Mayer, 2002). Unfettered access to global competition, in the context of global excess capacity, means impoverishment for those without unique skills. This is the case for much of Africa and Latin America, and for a growing number of people in Western Europe and North America (whose reserve armies of labour are not just China and India, but also Eastern Europe and Central America). In principle, incomes can be provided for these marginalised communities through the redistribution of the fruits of increased growth and productivity. But *real-politic* stands in the way - the rich will not pay the taxes required to fund this redistribution, and they are increasingly able to avoid taxes in a world of liberalised financial flows. I therefore believe that we need to revisit the virtues of protection, but in a world of regional preferences which will at the same time allow for enhanced scale and productivity growth with a less extended and energy-intensive transport infrastructure. This means a greater emphasis on intra-regional integration reflected in trade, governance systems, financial flows, migration and other elements which have become so important in the globalising world of the past few decades.

Finally, there is the need to create greater space for the newly emergent Asian economies – the “Asian Drivers” – who are rapidly becoming the most dynamic and

largest economies in the world (<http://asiandrivers.open.ac.uk/>). We need to learn from the mistakes of the early twentieth century when the failure to allow Germany to play a role in the global economy appropriate to its economic power led to a descent into global war. Together, China and India account for almost 40 percent of the global population and are rapidly entering the league of the world's largest economies; Brazil with almost 200 million people, may follow rapidly in their wake. Are our institutions of global governance changing rapidly enough to reflect this altering balance of global economic power?

This, for example, affects not just the appointment of Head of the World Bank (privileged as a US nomination) and the IMF (privileged as a European nomination), but also the substance of the policies promoted by these International Financial Institutions. For example, in recent years, in response to criticism of its near-exclusive resource-focus in SSA, China has committed itself to the construction of a series of industrial parks, beginning in Zambia, Ethiopia and Nigeria. We know from previous experience that most industrial production in SSA can only survive in a protected economic environment. So, for these China-resourced industrial zones to flourish it will be necessary for the trade regimes in these countries to run counter to the Washington Consensus. China will thus need to confront the framing of policy in the Washington Consensus institutions, not least because its own industrial experience of protection and subsidy represents a negation of the neo-liberal western orthodoxy.

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