THE EFFECTS OF GLOBALIZATION ON DEVELOPING COUNTRIES, WITH PARTICULAR ATTENTION TO POVERTY LEVELS

– and –

THE EFFECTS OF IDENTITY THEFT ON SOCIETY AND THE INDIVIDUAL

by

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Bachelor of Arts (Economics), York University, 2006

ESSAYS SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF

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ABSTRACT

Essay 1: The Effects of Globalization on Developing Countries

This essay surveys scholarly literature on the effects of globalization on developing countries with attention to poverty. I first present evidence suggesting that globalization benefits the developing countries and the poor. A second opinion argues against globalization, linking it to financial crises and negative effects on the agricultural sector. Finally, some authors find both positive and negative outcomes of globalizing. Overall, I conclude that globalization unambiguously benefits the poor only together with complementary pro-poor policies.

Keywords: globalization, economic growth, poverty reduction, pro-poor policies

Essay 2: The Effects of Identity Theft on Society and the Individual

This extended essay examines the impacts of identity theft surveying previous studies focusing on the social harm caused and suggests possible ways to protect personal information and prevent identity theft. The majority of the articles show that policy changes have a positive influence on identity theft, although sometimes not as significant as the policy makers expect. The proposal is that legislation that would treat consumer protection as a public good would be beneficial.

Keywords: identity theft, prevention policy, consumer protection, social cost
ACKNOWLEDGEMENTS

I offer sincere thanks to the faculty at the SFU Department of Economics. I owe particular thanks to my two senior supervisors, Dr. Alexander Karaivanov and Dr. Steeve Mongrain, for their support and guidance during my research. Special thanks are also owed to Dr. Phil Curry for his valuable insights on my two essays.
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THE EFFECTS OF GLOBALIZATION ON DEVELOPING COUNTRIES, WITH PARTICULAR ATTENTION ON POVERTY LEVELS
INTRODUCTION

Paul Samuelson’s words from 1976 provided strong motivation to the birth of this essay. He said: “No new light has been thrown on the reason why poor countries are poor and rich countries are rich.” Most economists and political scientists today would still agree with him. The causes of the wealth and poverty of nations continue to be “the grand object of all inquires in political economy”, as Ricardo wrote in 1817.

From my reading of the literature I found that one recent and important question policy-makers and researchers seek the answer to is: Can the World Cut Poverty in Half by the target date of 2015? The question became important since the United Nations declared it as one of its Millennium Development Goals to eradicate extreme poverty and hunger. Also, one of the key themes at recent GATT meetings is how to help the world alleviate poverty.

This essay attempts to provide a comprehensive picture about the different theories and opinions found in the recent academic literature regarding the effects of globalization on poverty in developing countries. I will start by defining the basic ideas and concepts and then will continue by looking into the difficult question of quantifying poverty levels. In the essay I discuss the relationships between globalization and inequality, globalization and poverty, and globalization and growth. In this process, I will show examples of positive outcomes of globalization but also pay attention to any
negative consequences. Finally, I will bring the pro and against globalization opinions into a balance by searching for valid arguments on both sides.

According to my findings, researchers generally tend to agree that alleviating poverty requires global, cross-country policies that we do not currently have and furthermore, some suggest the setting up of an international initiative to coordinate such policies.
DEFINITIONS AND MEASUREMENTS

Globalization defined

Theodore Levitt from the Harvard Business School is known for coining the term globalization. In 1983 he wrote an article entitled “Globalization of Markets”, promising boundless prosperity and consumer joy as a result of globalization. The word itself might have been in use before that, however it was Levitt who popularized the term in numerous articles on economic, political, management, and marketing subjects.

Although Levitt used the term, he did not provide an exact definition for globalization. Stanley Fischer offers a possible definition stating that the most important characteristics of globalization are “the increasing amount of cross-border trade in goods and services, the increasing volume of international financial flows, and the increasing flows of labour”. (Fischer, 2001)

Alternatively, in sociology, Guillen (2001) defines globalization as a “process leading to greater interdependence and mutual awareness among economic, political, and social units in the world, and among actors in general”. According to another leading sociologist, Sassen (2006) globalization is not simply growing interdependence, but “an epochal transformation, one as yet young but already showing its muscle.” Sassen believes that a good part of globalization “consists of an enormous variety of micro-processes that begin to denationalize what had been constructed as...
national—whether policies, capital, political subjectivities, urban spaces, temporal frames, or any other of a variety of dynamics and domains.” (Sassen, 2006)

Quantifying globalization is not easy. It is debatable how to measure globalization, by the gross volume of international capital flow, by world trade, as a percentage of World GDP, or by the labour flow between countries? Williamson (1999) in his work uses for example “the convergence of prices, rather than the volume of trade, as another indicator of the extent of globalization”. (Fischer, 2001)

In 2001 a formal measure of globalization was created by the A. T. Kearney Foreign Policy Magazine, the *globalization index*. This index quantifies economic integration by combining data on trade, foreign direct investment, portfolio capital flows, and income payments and receipts. Using this index, Foreign Policy constructed a ranking of political, economic, and technological integration in 62 countries, based on a dataset created by the U.S. Commerce Department Bureau of Economic Analysis. (Foreign Policy, No.134)

**Poverty defined**

Poverty is normally defined as one not being able to afford certain pre-determined consumption needs. Measurement of poverty is not consistent in the literature similar to the measurement of globalization. One possible measure is *absolute* poverty, meaning that poverty is measured by the headcount of people living on less than the poverty line of $1 a day, established by the World Bank. The poverty line has fixed purchasing power, and is set to ensure that predetermined nutritional requirements are
Debraj Ray defines poverty line as a critical threshold of income, consumption, and access to goods and services below which individuals are declared to be poor. (Ray, 1998) Another measurement is relative poverty, for which there is no need to establishing the poverty line but instead focuses on a certain quantile of the income distribution.

The poverty gap index (the mean income shortfall below the poverty line as a proportion of the line, counting the non-poor as having zero shortfall) and the squared poverty gap are believed to be two more sensitive measures to growth in income of those at the poverty line. (Kraay, 2006)

The Watts index is used when a distribution-sensitive measure is needed (it is the population mean of the log of the ratio of the poverty line to censored income, where the latter is actual income for those below the poverty line and the poverty line for those above it), that will reflect the changes in distribution among the poor. In order to be able to use these measures, one needs again an established poverty line first, which can be a constant proportion of the mean income. (Ravallion, 2005)

In summary, the measurement of poverty is “based on the notion of poverty line, which is constructed from monetary estimates of minimum needs.” (Ray, 1998) The head count ratio is a popular measure, but it “fails to adequately account for the intensity of the poverty”. The poverty gap ratio is a measure that looks at the total shortfall of poor incomes from the poverty line, and expresses this shortfall as a fraction of national income. (Ray, 1998)
Given that I am going to look at the effects of globalization on poverty manifesting themselves through economic growth, I will be particularly interested in the so-called poverty elasticity, i.e. the relationship between income growth and poverty reduction, given by the percentage change in the poverty headcount incidence that results from a 1% change in per capita GDP. (Hanmer & Naschold, 2000)

Pro-poor policies play a crucial part in reducing poverty. The World Bank suggest that a policy package focusing on determinants of growth in average incomes, such as the protection of property rights, sound macroeconomic policies, and openness to international trade should be the heart of pro-poor growth strategies. (Kraay, 2006)
GLOBALIZATION AND GROWTH

David Dollar calls “the growing integration of developing countries with the rich countries and with each other, starting around 1980” the new wave of globalization. According to him, the opening up of big developing countries such as China and India is arguably the most distinctive feature of this time period. Dollar is convinced that “individual cases, cross-country statistical analysis, micro evidence from firms, and opinion surveys in developing countries all suggest that opening up to trade and direct investment has been a good strategy for such countries as China, India, Mexico, Uganda and Vietnam.” (Dollar, 2001)

Figure 1.1 Change in Trade/GDP 1977–97 (selected countries)

Source: Figure 1, David Dollar, 2004, public domain
Figure 1 from Dollar's study shows how China's ratio of trade to national income has more than doubled and countries such as Mexico, Bangladesh, Thailand, and India have seen large increases as well. However, quite a few developing countries trade less than two decades ago. (Dollar, 2001)

Dani Rodrik (2002) helps us see globalization in China from a different perspective. He believes that China achieved integration in the global economy and lifted itself out of poverty in spite of ignoring all the rules of globalization. He admits that “China's growth since the late 1970s—averaging almost 8 percent per annum per capita—has been nothing short of spectacular.” However, he also attracts our attention to the fact that “China's economic policies have violated virtually every rule by which the proselytizers of globalization would like the game to be played.” China therefore, in Rodrik's view, is “hardly a poster child for globalization.” Its economy remains among the most protected in the world.

China is still a success story, Rodrik says, while there are many countries which opened up their economy to trade and capital flows and “were rewarded with financial crises and disappointing performance.” He mentions the Latin American region, and particularly draws attention to Argentina's tragic case in 1998. Therefore, Rodrik predicts that it will take a lot of work to “make globalization's rules friendlier to poor nations. Leaders of the advanced countries will have to stop dressing up policies championed by special interests at home as responses to the needs of the poor in the developing world.” (Rodrik, 2002)

Developed countries will have to provide room for poor nations to “develop their own strategies of institution-building and economic catch-up. For their part, developing
nations will have to stop looking to financial markets and multilateral agencies for the recipes of economic growth. Perhaps most difficult of all, economists will have to learn to be more humble!” (Rodrik, 2002)

The World Bank published a book in 2005 with the title of “Global Economic Prospects: Trade, Regionalism and Development.” They happily report that year 2004, in terms of aggregate economic growth caused by globalization was impressive. According to the following table, even developing countries experienced great success in terms of growth in that particular year; however they still remain a source of concern.

The following figure contains a global outlook for the developing countries in terms of growth in real GDP. If we focus on the Sub-Saharan Africa region, one of the most problematic ones in terms of poverty, we can see that, according to the estimates, growth in this region will still lag the rest of the world by a significant margin, implying a further widening of income gaps. Therefore, the author suggests, continued efforts to improve fundamentals are required to speed the pace at which these countries achieve their poverty reduction objectives. Sustaining this higher pace would be essential for the fate of millions of the World’s poor. (World Bank, 2005)

What I would like to attract the reader’s attention to, is that the last two columns which look very promising, are based on estimates for 2005 and 2006.
Figure 1.2 Global outlook and the developing countries.

Figure 1.2 Strong growth across most regions

- **a. East Asia and Pacific**
  - Growth of real GDP (percent)
  - Forecast

- **b. South Asia**
  - Growth of real GDP (percent)
  - Forecast

- **c. Europe and Central Asia**
  - Growth of real GDP (percent)
  - Forecast

- **d. Middle East and North Africa**
  - Growth of real GDP (percent)
  - Forecast

- **e. Latin America and the Caribbean**
  - Growth of real GDP (percent)
  - Forecast

- **f. Sub-Saharan Africa**
  - Growth of real GDP (percent)
  - Forecast

Note: * = estimate.

Source: Global Economic Prospects: Trade, Regionalism and Development Washington, DC World Bank, 2004, Figure 1.2., used by permission
Ravallion (2005) uses the Watts index in order to study the relationship between income inequality and poverty. The use of the Watts index is useful in the sense that it can respond quite elastically even to small changes in overall inequality. He finds that the higher the initial inequality in a country, the less the gains from growth is tend to be shared by the poor. In other words, “a smaller initial share tends to mean a smaller subsequent share of the gains from aggregate economic expansion. If growth in a low inequality country comes with a sufficient increase in inequality then it will by-pass the poor.”
GROWTH AND POVERTY

There exists considerable evidence in Dollar’s (2001) work that globalization causes economic growth and that growth tends to be highly correlated with poverty reduction. The question is whether the effects of growth are always the same on poverty levels and what effects might globalization have on poverty and inequality? Can growth and poverty be uneven in a region?

Chen and Ravallion (2000) look at the relationship between globalization–promoted growth and poverty levels. They find that although absolute poverty falls with growth, if we look on a country by country basis, a very diverse pattern is revealed. Ravallion (2001) takes a step forward to look beyond averages. According to his study, evidence shows that on average, there is no correlation between growth in income and change in inequality. Therefore, the share of income going to the poor remains constant on average. One cannot imply that growth is either anti-rich or anti-poor. However, when studying the changes in distribution among the poor, Ravallion finds that absolute poverty measures tend to fall with growth. After analysing data on India, he concludes that economic growth tended to reduce poverty in that particular country. His findings suggest that some specific factors like farm productivity, living standards, education and resource development strongly influence how economic growth affects poverty in a country.

In their study, Dollar and Kraay (2001) show that there is a one-to-one relationship between the growth rate of income of the poor and the growth rate of
**per capita income.** The Heckscher–Ohlin model suggests that “greater openness will affect the distribution of income among other factors of production, but the direction of the effect will be different in different countries.” Dollar and Kraay tested this proposition by looking into data from 137 countries, particularly interested in what happens to the bottom 20% of the income distribution. They found that **percentage changes in incomes of the poor on average are equal to percentage changes in average incomes.** Dollar and Kraay conclude that globalization generally supports poverty reduction and thus benefits many of the world’s poor.

Foster and Szekely (2001) use a data set containing 144 household surveys from 20 countries over the last quarter century to find out whether economic growth generated by globalization and its forces is good for the poor or not. Their findings suggest that, the **incomes of the poor do not grow one-for-one with increases in average income,** which is the exact opposite of the Dollar and Kraay (2001) study results.

The method they use does differ from previously used ones as well, which can be the reason or the difference in results. Namely, their evaluation of the effects of growth on incomes of the poor is based on a comparison of growth rates for two standards of living: the ordinary mean; and a bottom sensitive general mean. The authors compare the growth of the ordinary mean to the growth of the general mean. If the elasticity is one, the growth is proportional for the poor, if it is less, they do not benefit as much as the rich, and if elasticity is higher than one, than we could talk about pro-poor growth. Their results show that the elasticity is significantly smaller than one, which they translate as poor people not benefiting largely from globalization and growth. (Foster and Szekely, 2001)
In order to be able to see both the advantages and the disadvantages that go hand in hand with globalization, one would need to focus one’s attention to more concrete aspects of globalization as well, such as the effects of trade on developing countries.

**Trade and poverty**

Dollar and Kraay (2001) conducted a comprehensive analysis on the relationship among trade, growth and poverty. Their findings show that there is a strong positive effect of trade on growth after they control for changes in other policies. Examining the effects of trade on the poor, they present evidence supporting the view that globalization leads to faster growth and poverty reduction in poor countries. The authors conclude that poor countries that have reduced trade barriers and participated more in international trade over the past twenty years have seen their growth rates accelerate.

Openness to international trade is found to be positively correlated with growth, but negatively correlated with the Gini coefficient, indicating that “distributional change tends to be poverty-increasing in countries that trade more”. (Kraay, 2006) The author suggests that trade has two effects, a growth effect, which is poverty reducing, and a distribution effect, that is poverty increasing, with the former dominating the latter. Interestingly, he employs a purely relative definition of the poor as those in the bottom quintile of the income distribution. The question arises: Would there be a coherent distribution between poor and non-poor by looking only at the incomes of the lowest quintile?

Kraay truly believes in international trade enhancing growth, and in growth being good for the poor therefore I view him as a researcher who sees globalization as a
successful means to reduce poverty. He states: “openness to international trade should be at the heart of pro-poor growth strategies.” (Kraay, 2006)

We all know how huge the problem of poverty in Africa is. According to the Foreign Policy’s globalization index Africa remains the region least integrated into the global economy. The continent’s share of global trade has actually declined in the last decade. “If the region’s countries had merely maintained their export market shares of 1980, their 2000 exports would have amounted to $161 billion—more than double the actual outcome.” Unfortunately, even Botswana, one of the leading countries in Africa saw its exports decline by nearly 9 percent in 2001, because of a decrease in the demand for diamonds, which account for 80 percent of the country’s export revenue. (Source: Foreign Policy)

If trade is good for the poor as earlier studies suggest, in my opinion, Africa would need to achieve a higher share in international trade rather than let it decline. The problem is, their lack of knowledge about trade policies, and poor local capacities might work against them under the circumstances.
GLOBALIZATION, INEQUALITY AND POVERTY

“Economic inequality is the fundamental disparity that permits one individual certain material choices, while denying another individual those very same choices.” (Ray, 1998)

Globalization and inequality

There are several researchers, who focus their attention on the trends in global poverty and inequality. For example, Dollar (2000) highlights how growth rates of developing countries - opening up to globalization - have accelerated in the past 20 years and are higher than rich country growth rates and how large the decline was in the number of poor in the world between 1981 and 2001. While the richest countries growth has been declining from 4% to 1.7%, the poor countries growth achieved a level of 3.5%. His study shows cross country evidence.

Besley and Burgess (2003) find that – conditional on mean real per capita national income – higher inequality is correlated with higher absolute poverty, measured by the headcount of those with less than $1 a day. Their regression results using data from 89 countries suggested that the share of income going to the top 10 percent of the population is large and statistically significant. In those countries where the rich get most of the national income, less is available for the poor, and absolute poverty is higher. The evidence presented by Besley and Burgess suggests that reducing inequality by one standard deviation in Sub Saharan Africa would reduce poverty by more than half.
Hanmer and Naschold (2000) try to investigate whether labour-intensive growth reduces poverty more in “globalizer countries” than any other type of growth, and whether by focusing on such broader based growth attaining the goal of halving poverty by 2015 is more possible or not. For achieving broader based growth (means that in all regions the incremental labour capital ratio improves by 25% by 2015) it would be necessary that all regions would become open by 2015. They conclude that “prospects for reducing poverty are much better in low-income inequality countries than high inequality countries.”

Hanmer & Naschold (2000) results agree with those of Dollar (2002) and Bourguignon and Morrison (2002) study: Halving income poverty by 2015 is possible however policies are needed to induce this broader based growth. Also, according to them, growth does not have to be as high as projected by Besley and Burgess, for the developing countries an overall growth of 3% would be sufficient. In Sub-Saharan Africa, a growth of 2.5% would help alleviate poverty; however given the current forecast rates of growth for that region it is unlikely that even this target can be reached.

Hanmer and Naschold conclude that income inequality does have a critical role in achieving a particular growth path and therefore high inequality countries would need twice as high growth rates than the low inequality countries in order to reach the income poverty target. (Hanmer & Naschold, 2000)
Table 1.1  Forecast growth and growth required to halve poverty by 2015  
(average annual real growth in GDP per capita)

<table>
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<th>Forecast growth</th>
<th>Growth required to halve poverty by 2015</th>
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<tr>
<td></td>
<td></td>
<td>Broader based</td>
</tr>
<tr>
<td>Sub Saharan Africa</td>
<td>1.4</td>
<td>2.4</td>
</tr>
<tr>
<td>High Inequality</td>
<td></td>
<td>3.5</td>
</tr>
<tr>
<td>Low Inequality</td>
<td></td>
<td>2.1</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>3.0</td>
<td>0.6</td>
</tr>
<tr>
<td>High Inequality</td>
<td></td>
<td>0.5</td>
</tr>
<tr>
<td>Low Inequality</td>
<td></td>
<td>2.1</td>
</tr>
</tbody>
</table>


From the above table we can see, that in low inequality countries a broader based growth of 2.1% would help alleviate poverty, and even in high inequality countries a 3.5% growth rate would be enough to reach the poverty reduction target by 2015, given it is going to be broader based; however as high as 10.4% growth would be needed if countries would not open up. Because Sub-Saharan Africa contains many high inequality countries, there is a lower chance to see much positive outcomes for that region in the near future. Ravallion (1997) also confirms that higher initial levels of inequality are associated with lower levels of poverty reduction at any positive growth rate.

All the cited evidence seems to suggest that globalization produces both winners and losers among the poor. In addition, how much they would lose or gain, depends, among other things, on the initial level of inequality in the particular country.
Globalization and poverty

Let me go back to the important question of whether the world is going to be able to cut poverty in half by 2015. I will look at two respective articles focusing on this issue. One is the work of David Dollar and Paul Collier, “Can the World Cut Poverty in Half?” and the other is Timothy Besley and Robin Burgess's scholarly contribution called “Halving Global Poverty”.

Collier and Dollar (2001) paint a very optimistic picture stating that poverty in the developing world will decline by about one-half by 2015 if the trends of the 1990s persist. The authors are committed to prove that “trends toward faster growth and poverty reduction are strongest in the developing countries in which there has been the most rapid integration with the global economy”. They support the view that “integration has been a positive force for improving peoples' lives in the developing world.”

Collier and David (2001) develop a baseline scenario for poverty reduction based on a dataset of growth rates prepared by Easterly in 1999, who uses a regression of growth rates on past growth rates, initial conditions and current economic policies. The authors use the $2/day poverty line, which is, the most commonly cited poverty measure. Based on Chen and Ravallion (1997)'s study Collier and David decides to make use of their median elasticity of poverty with respect of growth, which is estimated to be equal to two.

Applying the estimated elasticity of two to all countries, and using the $2/day poverty lane, Collier and David get the following predicted changes in poverty rates: for South Asia, where the per capita income growth is good, the decline might be as high as 40%–85%, in East Asia from 10% to 57%, and in Africa close to 11%. Therefore, they
conclude that **halving global poverty is possible by 2015**, while admitting that the
global figure disguises the fact that there is very little poverty reduction in Africa, and
there can even be an increase in the poverty in the transition economies of Eastern
Europe and Central Asia. (Collier and David, 2001)

In contrast to Collier and David (2001), Besley and Burgess (2003), also studying
poverty on a global scale and look at where the poor are located in the world and how
their numbers have changed over time, find that **halving global poverty might be
unattainable**. They propose developing a new agenda for the benefit of developing
countries which focuses less on redistributing and more on specific pro-poor policies.
These policies need to take into consideration public services, credit and property rights.

Besley and Burgess (2003) criticize the so called “dollar-a-day” poverty line
being used by many researchers, including Chen and Ravallion (2001), which in their
opinion does not give a good measure for the middle income countries, where living on a
dollar a day is unthinkable. They also attract the reader's attention to the fact that there is
not enough data on all 158 low and middle-income countries. Even the most extensive
studies cover only approximately 88 countries, because of this lack of data.

Besley and Burgess (2003) choose to analyze cross-country poverty and national
income data from World Bank. They estimate the elasticity of poverty with respect to
income per capita and get −0.73 for the whole sample (about 60 countries).
<table>
<thead>
<tr>
<th></th>
<th>Whole Sample</th>
<th>East Asia and Pacific</th>
<th>Eastern Europe and Central Asia</th>
<th>Latin America and the Caribbean</th>
<th>Middle East and North Africa</th>
<th>South Asia</th>
<th>Sub-Saharan Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elasticity of poverty with respect to income per capita</td>
<td>-0.73</td>
<td>-1.00</td>
<td>-1.14</td>
<td>-0.73</td>
<td>-0.72</td>
<td>-0.59</td>
<td>-0.49</td>
</tr>
<tr>
<td>Annual growth rate needed to halve world poverty by 2015</td>
<td>3.8%</td>
<td>2.7%</td>
<td>2.4%</td>
<td>3.8%</td>
<td>3.8%</td>
<td>4.7%</td>
<td>5.6%</td>
</tr>
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<td>Historical Growth</td>
<td>1.7%</td>
<td>3.3%</td>
<td>2.0%</td>
<td>1.3%</td>
<td>4.3%</td>
<td>1.9%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Total growth needed to halve world poverty by 2015</td>
<td>95%</td>
<td>70%</td>
<td>61%</td>
<td>94%</td>
<td>95%</td>
<td>117%</td>
<td>141%</td>
</tr>
</tbody>
</table>

Source: Table 2, p.8 Besley and Burgess (2003)

In the above table the authors include the annual growth rate that would be needed in order to halve global poverty by 2015. We can see that for the Sub Saharan Africa a 5.6% annual growth rate would be required to reach the poverty reduction target, and a cumulative growth of 141%, which might be highly unattainable for most of the countries in that respective region. (Besley and Burgess, 2003)

Targets for global poverty reduction as set by the international community were reviewed in several articles. Continuance of present social and economic trends might prevent reaching poverty reduction targets. Some of the common problems cited in the papers are: the lack of effective governance, transparent trade policies, effective organizations and local intervention.
GLOBALIZATION AND WELL BEING IN GENERAL

Due to globalization, people are wealthier and freer than before. Robert Wright (2000) analyzes whether people become happier as well from globalization, from the psychological perspective. He says globalization is hard to stop and it can make the world—on balance, at least—more prosperous, but he has doubts about globalization making everyone happy.

Wright (2000) looks at the potential for prosperity from two viewpoints, that of the rich and that of the poor. He believes that when national income grows, the “rising tide seems to lift all the boats”, therefore the poor nations become less poor. Economic development does improve diet, medicine, and shelter, democracy and human rights therefore globalization probably is making poor nations happier. However, Wright suggests that there is a per capita income level beyond which more money fails to bring more happiness. He indicates that this threshold income is somewhere around $10,000/year. In terms of psychological payoff— or actual happiness, the benefits of globalization, in his view, go to the world’s lower classes therefore, to nations with a per capita annual income under this level.

According to Wright, globalization can make the poor happy and can be bad for the rich. The explanation beyond his theory is simple: “as people struggle to raise their standard of living, they are attaining things—decent nutrition, health care—that raise their level of happiness without reducing anyone else’s.” On the other hand, within the
so-called rich countries, people do struggle for social status, and that is a finite resource, anyone’s gain must come at someone else’s expense. Therefore, Wright concludes, that rich nations as a whole cannot get happier, only individuals in them, while poor nations can gain happiness on a national level when reducing poverty. I would say that Wright might be missing some of the angles in his analysis. In my opinion, social status can have an important role even in the poor countries; therefore the poor might not take the pure benefits and the rich all the discommodities attached to globalization.

On a more practical level, one reason beyond why poor might not benefit from globalization is that, before the increased trade volume developing countries used to protect their labor intensive sectors. With trade reforms in place, these protections may lessen and workers might lose their jobs, which might result in increased poverty. Another concern is that financial crises often associated with globalization and opening up countries’ economies might be very costly to the poor. For example, Mexico’s poverty rates in 2000 were higher than they were 10 years earlier, which can be partly a consequence of the 1995 peso crises of the country. (Harrison, 2006)

Looking not only at the crises situations, but generally at the consequences of globalization, Rodrik (1997) draws our attention to how certain labor market practices started to dismantle with globalization. He talks about some companies in Japan which used to provide lifetime employment but now introduce new regulations and privatize public enterprises. The business executives and government officials can only say one thing: they need to keep up with the competitiveness of the global economy. “Employers are less willing to provide the benefits of job security and stability, partly because of increased competition but also because their enhanced global mobility makes them less
dependent on the goodwill of their local work force. Governments are less able to sustain social safety nets, because an important part of their tax base has become footloose because of the increased mobility of capital.” The explanation is easy: globalization creates some sort of asymmetry by letting employers move abroad, but not employees. (Rodrik, 1997)

With labor being less mobile than capital, especially the illiterate and unskilled, who cannot take advantage of the higher and newer technology, there can be a hard period to cope with “before the benefits of opening up trickle down.” This is one of the important problems of rapid globalization. Unfortunately, since the gains from globalization can be very uneven among the rich and the poor, the poorer people’s “absolute welfare may even decline, because of the rise in the price of goods or by their getting excluded from the ‘market’.” (Banerjee, 2005)

I find that, according to most of the researchers, what would be mostly needed is a stronger safety net for the poor, and not a dismemberment of the social policies already in place. Good complementary policies could include “investments in human capital and infrastructure, as well as policies to promote credit and technical assistance to farmers, and policies to promote macroeconomic stability.” (Harrison, 2006)
CONCLUSION

This paper investigates the effects of globalization on developing countries paying particular attention to country poverty levels.

I found that there exist diverse opinions on globalization. One view says that it will lead to prosperity, while other people think that more caution is needed. What all the authors seem to agree on is that, without proper pro–poor policy framework, it is hard to see if globalization will cause growth in a country and by that would help the poor or not.

Some of the papers I studied suggest that globalization can be good for the poor, and can bring growth for a developing country's economy. However, this is not always the case. Openness to trade by itself does not guarantee a better life for the poor, and growth in income might or might not alleviate the poverty level in a country. We saw that there is still need for work to be done, before we can say with confidence, that YES, we can cut world poverty in half by 2015.
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THE EFFECTS OF IDENTITY THEFT ON SOCIETY AND THE INDIVIDUAL
INTRODUCTION

In recent times of increasing number of identity theft occurring each year, governments, institutions and law enforcement agencies face the problem of preventing the occurrence of the crime and if committed, the dealings with its consequences. Outcomes of identity theft can be present on a twofold level: first, the victim may have to deal with a loss of funds, a tarnished credit history, or even a criminal record, while the society needs to respond by a government agenda, policy formulation and legislations in order to identify and prevent identity theft.

This essay has been designed to make a contribution to the goal of painting a clearer picture about what and how can be done to protect the community and the individual against identity theft. It will be a concise review of the literature dealing with crime and punishment, the social harm caused by identity theft, the measures to be taken, and proposition for further research. The essay will suggest different ways to help consumers early identify the danger of personal data exposure and to show what the possible threat of identity theft might mean to the individual.

Since currently institutions and the individual share the harm caused by identity thieves, private protection does not seem to catch up with criminal effort. My suggestions is, to first start treating private protection as a public good and make all the efforts to identify who is responsible for protecting the personal information of the consumer; then come up with proper legislative measures in order to stop id theft from thriving.
This essay is going to be built in the following way. First it will contain definitions and a general description on how identity theft has risen. Then it will explain the possible ways of identity theft occurrence, which will be followed by a narrative of social harm caused and other effects on the society. A separate part will deal with the protection of personal information and how identity theft is prevented currently. Another section will draw attention to crime and punishment in general, and the impact of sanctions, and will discuss why general protective methods will fail in the case of identity theft. Some examples of measures taken by the government, financial institutions, credit card companies and credit report agencies will be followed by a detailed suggestion of how to prevent identity theft from a continuous growth.
IDENTITY THEFT

The Federal Trade Commission (FTC) defines identity theft as “a fraud committed or attempted using the identifying information of another person without authority.”

In the brochure of the Canadian Bankers Association we find the following definition: Identity theft is a serious crime that occurs when a criminal obtains unauthorized access to a person's identification and uses it to impersonate the individual. The personal information is used to create financial accounts, apply for loans and other credit or to take over a person's accounts for the purpose of committing fraud for financial gain.

Identity theft is not an Internet privacy issue, but the perception that the Internet makes identity theft easier means that it is often discussed in the Internet privacy context. The concern is that the widespread use of computers for storing and transmitting information is contributing to the rising rate of identity theft over the past several years, where one individual assumes the identity of another, using personal information such as credit card and Social Security numbers. (Sokolov, 2005)

Identity theft occurs regularly off-line as well as in the electronic environment, but the Internet has made the collection of personal data by criminals exceedingly easy. Unsuspecting Internet users may register for fake sweepstakes, sharing personal information that is then used to obtain money in that individual's name, or a person may
respond to an e-mail offer that is a front for collecting information to commit a crime.

(Hiller & Cohen, 2002)
COMMITTING THE CRIME

Individual’s identities can be obtained through theft of wallet, mail, trash, or online surveillance. Skilled identity thieves have a variety of methods to use to get a hold of one’s personal information. The methods include and are not limited to the following:

1. **Dumpster Diving.** Thieves rummage through trash looking for bills or other paper with your personal information on it.

2. **Skimming.** They steal credit or debit card numbers by using a special electronic storage device called skimmer when processing your card. The device is small, easy to hide, and can be purchased online for under $50.00. The victim’s card is swiped through the skimmer and the information contained in the magnetic strip on the card is then read into and stored on an implanted chip on the device or an attached computer.

3. **Phishing.** They pretend to be financial institutions or companies and send spam or pop-up messages to get you to reveal your personal information.

4. **Changing Your Address.** They divert your billing statements to another location by completing a change of address form.

5. **Old-Fashioned Stealing.** They steal wallets and purses; mail, including bank and credit card statements; pre-approved credit offers; and new checks or tax information. They steal personnel records, or bribe employees who have access.
6. **Pretexting.** They use a variety of tactics to get your personal information. They may call, claiming that he is from a research firm, asking for your name, address, birth date and social security number. When the pretexter has the information he wants, he uses it to call your financial institution. He might pretend that he has forgotten his checkbook and needs information about his account. In this way, the pretexter may be able to obtain your bank and credit card account numbers, information on your credit report, and the existence and size of your savings and investment portfolios.

(Federal Trade Commission website: www.consumer.gov/idtheft)

Once a thief has one’s personal information, may use it in a variety of ways. The thief may use the information to open new credit card accounts in the victim’s name. They usually use the cards for several transactions and then don’t pay the bills; therefore the delinquent accounts appear on the victim’s credit report. It is easy for the thief to change the billing address on the victim’s credit card so that the victim no longer receives bills, and this way run up charges on the victim’s account. Because the bills are now sent to a different address, it may be some time before the victim realizes that there is a problem. This is known as credit card fraud.

The thief may also be able to open services accounts, like a new phone line or a wireless account in the victim’s name, or run up charges on the victim’s existing account. They may use the victim’s name to get utility services like electricity, heating, or cable TV.

It is very common for the thief to use the obtained information to commit banking frauds, by creating counterfeit checks using the victim’s name or account number, or
opening a bank account in the victim’s name and write bad checks. They may clone the victim’s ATM or debit card and make electronic withdrawals on the victim’s name, draining his accounts. It is also easy for them to take out a loan in the victim’s name.

As for the so-called impersonation transactions, the thief may get a driver’s license or official ID card issued in the victim’s name but with their picture, and then uses the victim’s name and Social Security number to get government benefits. When they get a job using the victim’s Social Security number, there is a chance that they may even file a fraudulent tax return using the victim’s information. Possibilities are that the thief may be able to rent a house or get medical services using the victim’s name. It can give the victim a very hard time when the thief gives the victim’s personal information to police during an arrest, because if they don’t show up for their court date, a warrant for arrest is issued in the victim’s name. This might not incur any direct losses for the victim like the credit card or banking fraud; however it can lead to loss of reputation or even imprisonment and fine. (Federal Trade Commission website: www.consumer.gov/idtheft)
SOCIAL HARM AND OTHER CONSEQUENCES

Identity theft affects many segments of our society with direct financial losses. Consumers, in addition are faced with indirect losses such as reparation of their credit rating, which can take several years. Several forums have their leading topic as how to fight identity theft and make consumers less vulnerable to this kind of crime. Credit providers in particular have this issue on their agenda, since they are affected in some sense as well. Consumer confidence can erode easily which will cause the credit providers' businesses to suffer. (Cheney, 2004)

Let us see how the numbers look according to some surveys conducted on identity theft:

The Federal Trade Commission Survey in September 2003 found that 27.3 million Americans have been victims of identity theft in the past five years, including 9.91 million people or 4.6% of the population in the last year alone. In the past 12 months, a total of almost 10 million individuals were victims of identity theft. **The costs to these victims and businesses, according to the same survey totalled $47.6 billion** for year 2002. In those cases where the victim reported that money (new account) and goods & services (other frauds) were obtained on their behalf, the loss to businesses and financial institutions was an average of $10,200 per victim totaling $32.9 billion. Where the thieves solely used a victim's established accounts (credit and non credit), the loss to businesses was an average of $2,100 per victim totaling $14.0 billion. For all forms of
identity theft, the loss to business was $4,800 and the loss to consumers was $500, on average. The averages are weighted by the numbers of each type of ID theft incidence reported in 2002.

Table 2.1  Cost of ID Theft in year 2002

<table>
<thead>
<tr>
<th></th>
<th>New accounts &amp; other frauds</th>
<th>Misuse of existing accounts</th>
<th>All ID Theft</th>
</tr>
</thead>
<tbody>
<tr>
<td>Victims in the last year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percent of population</td>
<td>1.50%</td>
<td>Credit card 2.4%; non credit card</td>
<td>4.60%</td>
</tr>
<tr>
<td>Number of persons</td>
<td>3.23 million</td>
<td>6.68 million</td>
<td>9.91 million</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss to businesses, financial institutions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average per victim</td>
<td>$10,200</td>
<td>$2,100</td>
<td>$4,800</td>
</tr>
<tr>
<td>Total</td>
<td>$32.9 billion</td>
<td>$14 billion</td>
<td>$47.6 billion</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss to victims</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average per victim</td>
<td>$1,180</td>
<td>$160</td>
<td>$500</td>
</tr>
<tr>
<td>Total</td>
<td>$3.8 billion</td>
<td>$1.1 billion</td>
<td>$5.0 billion</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hours victims spent resolving their problems</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average per victim</td>
<td>60 hours</td>
<td>15 hours</td>
<td>30 hours</td>
</tr>
<tr>
<td>Total</td>
<td>194 million</td>
<td>100 million hours</td>
<td>297 million</td>
</tr>
</tbody>
</table>


Note 1: The Average per victim figures in the All ID theft column are a weighted average of the values for the different types of ID theft with the incidence in the past year (2002) used as weights.

Note 2: The totals by ID Theft might not sum to the totals shown in all ID Theft due to rounding.

Victims do not only spend money, but also a considerable amount of time resolving problems due to the misuse of their personal information. The numbers suggest that Americans spend almost 300 million hours a year resolving ID Theft related
problems. 4% of the victims reported that their information was used when the thief was stopped by law enforcement authorities or charged with a crime.

Social harm arises from the changes in behaviour that occur as people try to protect their own wealth, because any money or time spent defending their personal information is money and resources that could be spent on more productive pursuits.

It is evident from the literature that ID Theft can cause very serious harms to the individual besides incurring financial liabilities and costs of restoring their names. Victims might have their privacy invaded and they might also suffer from the psychological trauma of having their reputation ruined. (Milne, 2003)

As Cheney (2003) declares in her discussion paper based on the workshop sponsored by the Federal Reserved Bank of Philadelphia, “the comprehensive impact of identity theft is not yet fully understood, but recent studies highlighting the rapid growth and significant costs associated with the crime have spurred debate and a search for solutions.” (Cheney, 2003) The main concern of the participants was the current market response to the crime. Which leads us to our next topic, how and what measures are available in terms of punishment to deal effectively with the crime of identity theft.
CRIME AND PUNISHMENT

Ehrlich (1996) searches the answer for the following question: What constitutes an optimal crime control policy? Crime has been a growth industry in the United States over the last few decades. Both the probability and severity of punishment for specific crimes have generally been falling over the last three decades. A lower percentage of offenses known to the police are resulting in an arrest; the probability of imprisonment is smaller; and the time served in prison is shorter. The growth in the prison population, substantial as it is, has not kept up with the even larger growth in criminal behavior.

In the next figure we can see that according to Ehrlich (1996) there exists a market-equilibrium for offenses, where T is the resulting punishment (expected sanction) or Tax on the crime.

The model studied by the author implies that crime is a “normal” social fact, which is assured of historical survival at some positive level regardless of the prevailing political, economic or social system. Private self-protection and law enforcement set a “price” or a “tax” on criminal activity by reducing the marginal net return to the offender. The existence of equilibrium suggests that these prices are effective, at least on the margin. It follows that law enforcement must be effective, at least on the margin.

(Ehrlich, 1996)
Gary Becker in 1968 crafted an early principal-agent model of crime and punishment. According to him, “criminals are self-interested agents whose behavior is best understood as an optimal response to the incentives set by the government via expenditures on law enforcement and corrections.” (Dilulio, 1996)

According to recent studies, as crime is rising, the public is “demanding stronger measures to deal with crime.” A majority of Americans are convinced that existing
government policies do not do nearly enough to protect law-abiding citizens from convicted violent and repeat criminals. (Dilulio, 1996)

Freeman (1996) looks at criminal data between 1977 and 1992, and finds that the propensity for criminal activity rose by 163 percent, while at the same time, demand for less skilled male labor plummeted. According to him, “the pecuniary returns to crime depend on the probability that the individual succeeds with the crime. If a criminal is caught, he is likely to gain little from the crime.” (Freeman, 1996)

A collage of evidence supports the notion that young men respond substantially to the economic incentives for crime. “If the supply of youths to crime is reasonably elastic, it is easy to see why the standard incapacitation model – lock them up so they cannot commit crime – failed in the United States.” He finds that detailed analysis show, that there are always men out of imprisonment who are ready to step into the place of those caught and incarcerated. (Freeman, 1996)

In Freeman’s (1996) view a so called “combined carrot and stick policy – increased resources for police to prevent crime; incarceration of criminals during their most crime-intensive years; and increased legitimate opportunities for the less skilled – would seem to offer a way to deter at least some young men from committing crimes.” (Freeman, 1996)

Criminal activity fell since the early 1990's by about 30 percent. According to Levitt (2004) the four main factors that explain the steady decline of crime are: increases in the number of police, rising prison population, receding crack epidemic and the legalization of abortion. In spite of this so-called rising law-abidingness in general, the trend is the opposite when one looks at the specific crime of identity theft.
CONSUMER PROTECTION

According to the Economist, Identity theft continues to be one of the fastest growing white-collar crimes in the United States. Milne (2003) summarizes the possible ways to prevent identity theft in figure 2.2:

Figure 2.2 Institutional System for Minimizing Identity Theft

Because the effectiveness of different prevention efforts has not been empirically tested yet, he chooses to conduct a survey to investigate the success of consumer education. According to his results, “consumers should continue to be encouraged to
reduce access to their personal data; closely monitor credit card activity; protect passwords, PINs, and social security numbers and practice responsible information handling.” He also mentions that identity thieves are becoming more sophisticated therefore consumers should protect their identity everywhere including in cyberspace, where they could use anonymizers, personal firewalls, or other technological tools to protect themselves.

There were several measures many victims questioned in the Federal Trade Commission Survey Report proposed. Among them were mentioned stronger commitment to catching the thief or thieves, better follow-up and communication with the victim, and increased assistance from local law enforcement. “Victims also recommended stiffer penalties for offenders. Knowing who to contact, and notifying the affected companies and credit reporting agencies more quickly when they detected something wrong, was identified as an important factor in recovering from identity theft. Respondents also mentioned financial institutions, including credit reporting agencies, making greater efforts to monitor their account activity and notify them when unusual transaction occurred.” (FTC report, September 2003)
LEGISLATION AND IDENTITY THEFT

There are researchers who are convinced that lawmakers are the first in the lines who should fight the crime of identity theft. Linnhoff and Langenderfer (2004) choose to analyze the statute introduced in 2003, dealing specifically with identity theft. According to reports, “in the recent years, the number of identity theft victims has skyrocketed as has the economic and social cost of this now-prevalent crime, and identity theft is growing in frequency and severity, exacting an enormous social and financial toll.”

Since December 4, 2003 in the United States FACTA (the Fair and Accurate Credit Transactions Act) makes mandatory free annual credit reports to all customers. It also requires credit reporting agencies to include fraud alert in their files upon request by a consumer. One of the most damaging consequences of identity theft is the destruction of good credit history. (Linnhoff and Langenderfer 2004)

To prevent the crime, there is a list of precautionary actions we could take. Because 52% of all ID theft victims, approximately 5 million people in the last year, discovered that they were victims of identity theft by monitoring their accounts, monitoring ones account definitely tops the list.

The other things are all what not to do, though. In the case of merchants, for example, not to print the credit card numbers on receipts and for consumers, not to display any of their identification numbers or cards, and so on. A proposal says that by requiring that credit reporting agencies automatically send out annual copies of the
report, would provide even consumers who are less than vigilant with a once-a-year
opportunity to inspect their credit history. (Linnhoff and Langenderfer 2004)

The use of Social Security Number was introduced in 1936 to track income and eligibility for Social Security benefits, but since has become the "de facto national identifier" used by government agencies at every level as well as many private companies. Armed with an SSN, a would-be identity theft needs very little additional information to effectively steal an individual's identity and wreak havoc.

However, limiting the use of SSN is a relatively drastic step in the fight against identity theft, because so many government and private organizations now rely on it in their recordkeeping. Ultimately, identification systems that incorporate biometric measures may be the only feasible alternative. There are six bills that prohibit the display of SSNs government paychecks and driver's licenses. Regrettably, since 1998, when the law went into effect, identity theft has skyrocketed. The profits from identity theft are evidently too high and the risks too low to provide effective deterrence. (Linnhoff and Langenderfer 2004)

Unfortunately, FACTA still leaves it up to the individual to detect identity theft and manage its consequences. Therefore, comprehensive identity theft legislation is needed, the authors suggest.
"Identity theft is out of control"—said Professor LoPucki. (2001) In spite of criminalizing identity theft in 1998, occurrences of it appeared to increase.

The Sovem (2004) article focuses on one particular aspect of identity theft, the use of a person's identity to obtain credit. According to Sovem many victims report that even after they place fraud alert on their credit files, identity thieves are still able to borrow in their names. The credit industry does not bear the costs generated by attributing the thieves’ defaults to victims. The damages caused by misreporting of consumer information are borne largely by the injured consumers. Existing law does not give victims a cause of action against creditors for reporting erroneous information about consumers, and provides consumers a claim against consumer reporting agencies only if consumers can show that the consumer reporting agency acted negligently. (Sovem, 2004)

Sovem admits that, some forms of identity theft go back centuries. The law traditionally has employed civil loss allocation rules to reduce the incidence of many frauds. The article argues that loss allocation rules could reduce the frequencies of identity theft, provide some compensation for its victims, and spread the costs generated by identity thieves more efficiently among those who benefit from credit. He lists several reasons which explain why the credit industry has not moved to combat the identity theft more aggressively: “Credit bureaus do not suffer any losses when the theft occurs, other
than the expenses generated when they deal with irate consumers. They do not fear of losing business, since victims of identity theft will buy their reports no matter how angry at credit bureaus.” (Sovern, 2004)

Sovern finds that, in contrast to credit bureaus, lenders incur losses because of identity theft. They may provide services or goods for which they are not paid. Therefore, lenders have an incentive to reduce identity fraud by verifying the identity of credit applicants before making loans. However, firms are concerned that if they ask consumers too many questions, they may feel insulted and bring the business somewhere else. Few customers are willing to tolerate being asked for a second or third piece of identification when making a simple purchase. Since the credit marketplace is highly competitive, some lenders make themselves highly consumer friendly and attractive by not asking so many questions and making the application process easy and swallow the losses from the occasional identity theft. (Sovern, 2004)

Unfortunately, according to Sovern this decision would not help the victims. The consumers most of the time are powerless to prevent the identity fraud, and have no offsetting benefits from the decision of the lender not probing the credit card applicant more fully, except for the access to easy credit. Consumer victims do suffer considerable losses from identity theft but have no capacity to prevent many identity thefts.

He has a proposed solution. Because the goal is to give those who have the greatest power to prevent identity theft and the most knowledge about systems for granting credit the incentive to prevent identity theft, allow them to come up with a solution to the problem. If they cannot create such a solution, then they will bear the losses generated by identity theft until they can. “If the party who can avoid the loss bears
the cost, that party has an incentive to spend money to prevent the loss from occurring until its marginal cost of prevention equals its marginal losses from the fraud – which gives the greatest likelihood of avoiding the loss at the least possible cost.” (Sovern, 2004)

Recently Congress attempted to address the problem of identity theft by enacting the Fair and Accurate Credit Transactions Act (FACTA). The Act requires lenders to take special steps when dealing with fraud alerts and address changes, but does not impose liability on the credit industry. Sovern suggests that imposing liability on lenders and credit bureaus for identity theft and allowing those entities to decide for themselves, what measures can prevent identity theft would be most efficient. The cost of credit may increase slightly, but to the victims of identity theft, it will be a cost worth paying. (Sovern, 2004)

After reading Sovern’s proposition, one question automatically arises: whether individuals might act a bit carelessly about their identifications in the case when knowing that they are not responsible for any losses. Instead, one of two forms of negligence rules might be used: first, as long as the consumer takes an efficient level of precaution, then the business is responsible for all the losses. That is, if the victim takes a suboptimal amount of precaution, the victim is liable for the damages. The second rule states that if the business takes an efficient level of precaution, then the consumer is liable. No matter what rule the courts use, businesses will incorporate incentives for efficient precaution into their business practice. By incorporating insurance schemes into their dealings with costumers, businesses would induce efficient precaution on behalf of both parties.
WHY IDENTITY THEFT IS NOT A SIMPLE CRIME

According to Ayres and Levitt (1998) total government expenditure on criminal justice in 1995 was almost $100 billion dollars, while private expenditure to reduce crime is about $300 billion annually. In their study the authors provide a thorough empirical examination of the externalities associated with self-protective efforts, focusing their attention on the Lojack car retrieval system. Lojack is a hidden radio-transmitter devise used for retrieving stolen vehicles.

Ayres and Levitt (1998) find that the availability of Lojack is associated with a sharp fall in auto theft. Those who install Lojack, however, obtain less than 10% of the total social benefits, leading to under-provision by the market.

From an economic perspective, what makes Lojack most interesting is that there is no indication anywhere on a Lojack-equipped vehicle that Lojack is installed. The presence of Lojack therefore makes auto theft riskier and less profitable. It disrupts the operation of “chop-shops” where stolen vehicles are disassembled for resale of parts. Empirically, “there is strong support for the argument that Lojack reduces auto theft. The Lojack-owner on the other hand, has only about 10% of the social benefits of Lojack installation since almost all of the benefit results from the positive externality of reduced auto theft.”

After combining the direct benefits of Lojack with the externality associated with reduced auto theft the authors find that there is a yield of an estimated social benefit from
each marginal unit of Lojack of roughly $1500 per year. (One auto theft is eliminated each year for every three Lojacks.) In comparison, the social cost of a marginal unit of Lojack is a one-time outlay of $600, which discounted over the life of a vehicle, equates roughly $97 per year. The marginal social benefit of Lojack appears to be fifteen times greater than the marginal social cost.

“Lojack is a real-world example of an unobservable victim precaution measure that yields positive externalities. The magnitude of the externalities associated with Lojack point to the importance of conducting parallel research on other types of self-protection which, unlike Lojack, are observable to criminals and therefore carry negative externalities.” Ayres and Levitt (1998)

In fighting identity theft, or preventing its occurrence, all individuals can do is protect their personal identification, their credit card information, check their credit history often, and lean on consumer protection by businesses and organizations. Consumers are limited to not to do things in order to protect themselves as opposed to doing things when for example they want to protect their houses or cars by mounting alarm systems. This is the basic reason why identity theft is so unique in its nature.

Self protection against identity theft is very similar to the Lojack device because both are public goods. When a particular car owner installs a Lojack, she has to pay the full cost and everyone will share the benefit of it. Similarly, when a particular institution would take anticipatory measures to prevent identity theft, everyone would share the benefit of it. Presently, for some types of identity theft, both the victim and their institution suffer financial damage both being responsible for the loss to some degree.
Because identity theft affects not only the individual but also the society in general, protection against it should be treated as a public good. We know that identity thieves can not only use the victim’s personal identification to cause financial loss to the individual but by collecting social benefits and use other government services that they are not entitled to, they can drive up the costs to the governments, and eventually for the citizens. Therefore, everyone is paying for the crime of identity theft, not only the individuals who are direct victims or the banks and institutions that are providing services to the victims.

Therefore, legislation that would not divide responsibilities for losses caused by identity theft, but unify them, would be beneficial for the whole society. Sovern’s proposal about lenders bearing the costs makes a lot of sense in this setting, because as he said, victims do not always have the capacity to prevent the crime. By introducing the legislation sooner than later, we could prevent the free rider problem from arising, since everyone would be forced to introduce the preventative measures not only certain institutions. According to the articles I studied there is social desirability to stop identity theft, only the collective action, the solution is missing.
CONCLUSION

This paper examines the effects of identity theft on society and the individual. I found that collective measures taken by the government, financial institutions, credit card companies and credit report agencies can help in fighting identity theft.

There is a whole palette of useful suggestions and measures to be taken to protect the individual and the society. However, starting to think about self protection as a public good is not found in the literature. My suggestion is that society would benefit the most from legislation that would clearly identify who is responsible for protecting the consumer’s personal information from being stolen. If institutions by themselves would need to come up with a solution, soon the problem of identity theft could be diminished then eliminated.

By introducing this measure into the public domain, not only the individual, but the society would benefit as a whole, since protection would cover every single citizen who is dealing with the institutions, banks, agencies, and other credit providing companies.
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