

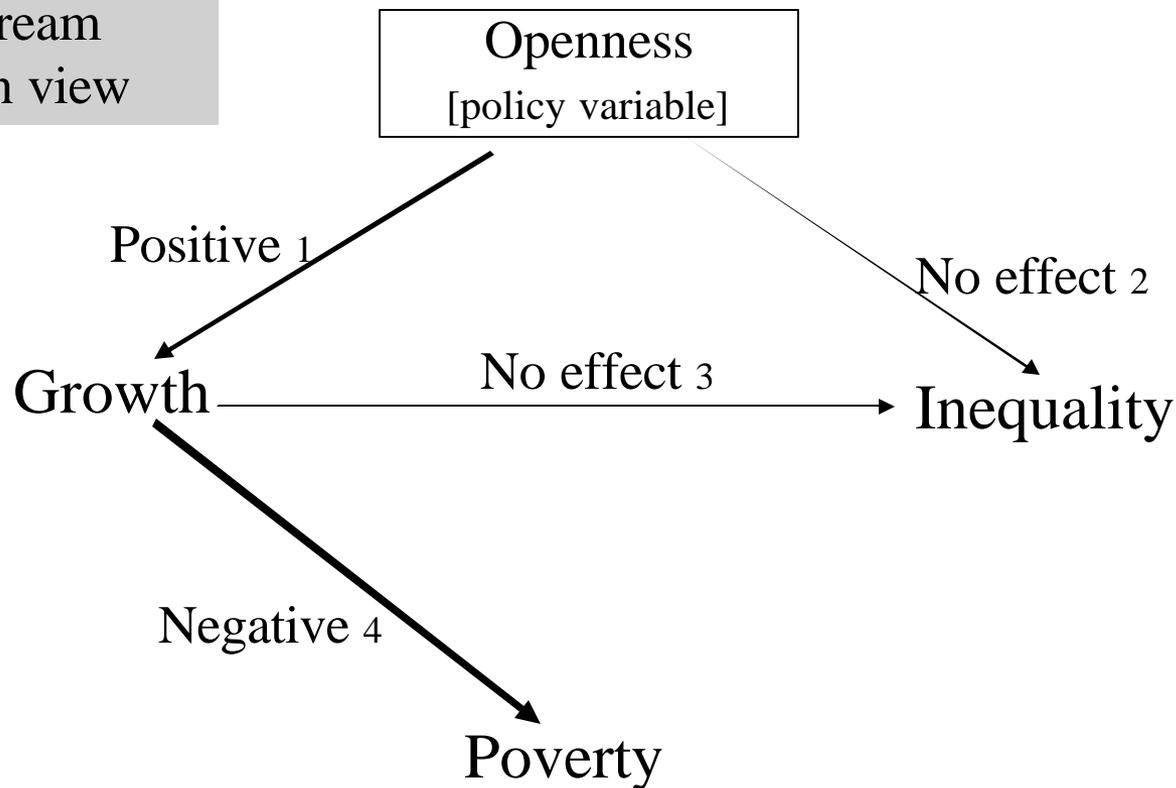
Unpacking globalization past and present: some interesting issues

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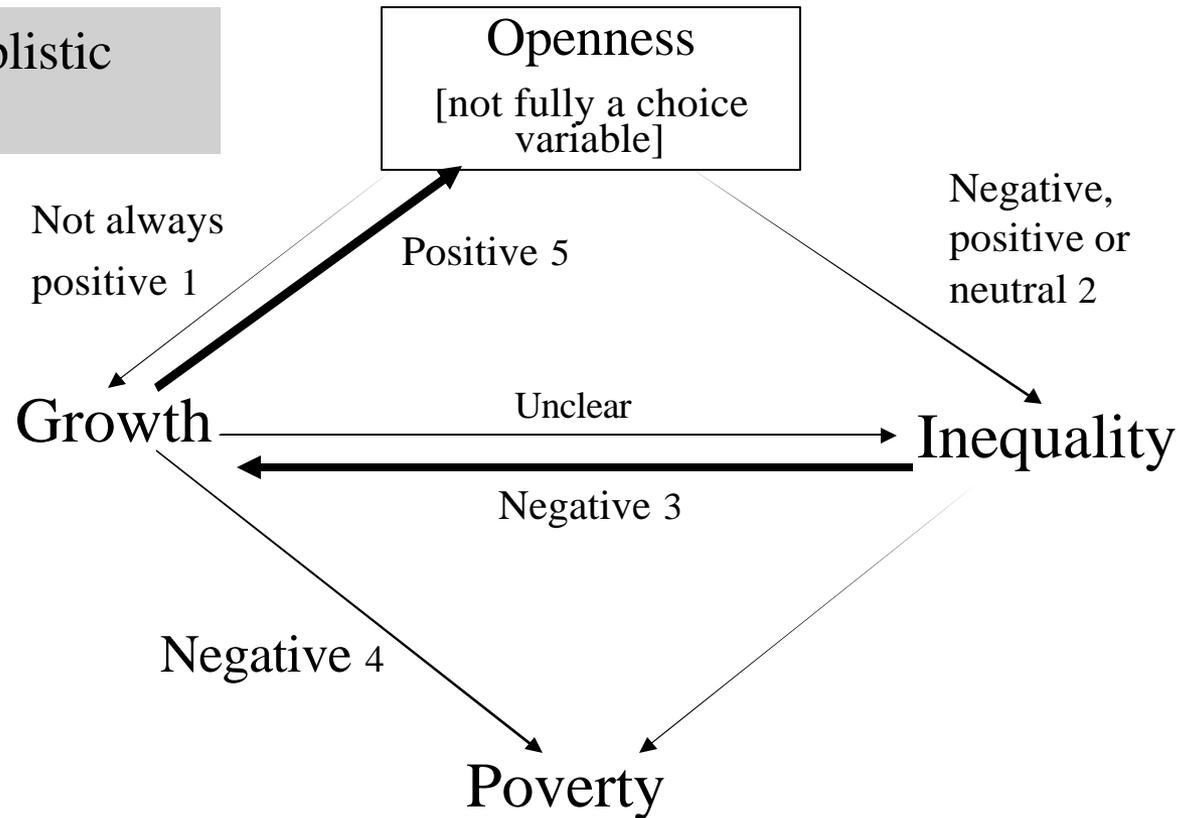
The mainstream
Panglossian view



- 1/ Sachs-Warner; Dowrick-de Long; Dollar-Kraay
- 2/ Dollar-Kraay
- 3/ Revisionist Kuznets
- 4/ Duh!

Openness sufficient for
poverty reduction

A less simplistic
view



1. Rodriguez-Rodrik, O'Rourke, Vamvakidis
2. Harrison-Hanson, Milanovic, Ravallion, Barro
3. Alesina-Rodrik, Perotti, Tabellini
4. Duh!
5. Bairoch, Shiue-Keller

Openness is not a choice variable
and its effects on poverty
reductions are ambiguous and
complex

- History: previous globalization episode (1870-1914) and the period of deglobalization
- Income divergence between countries during the last 50 years
- Global income distribution between individuals, 1988-98

- The equation: integration through trade—> income increases in both poor and rich countries—>poor countries grow faster (technology gain, greater MPk)—>income convergence
- Implication: globalization—>convergence
deglobalization—>divergence
- The story basically holds for the EU and the rich world since 1950.

But does it hold...

- **1.** For the world during the first globalization
- **2.** For rich countries during the deglobalization (1918-39)
- **3.** For the world during the second globalization

Point 1. The two sides of the 1870-1914 globalization

- Free circulation of labor, goods, capital within the North and from North to South
- But slavery as circulation of labor from South to North
- Imperialism: conquest of territories and peoples; exploitation
- Divergence of incomes between North and south
- Colonial "diktat"

Deindustrialization of the South

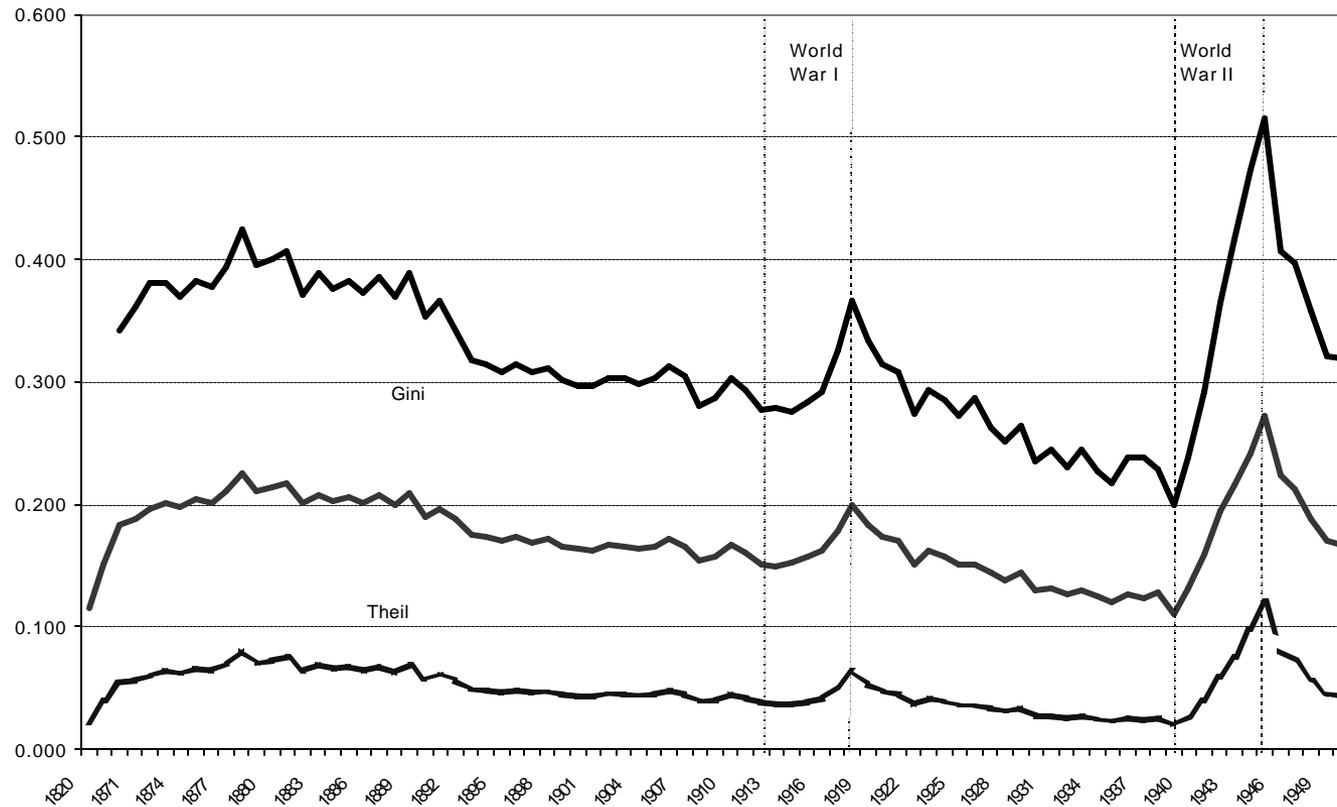
Level of industrialization (manufacturing output per capita), 1800-1913 (UK 1900=100)

	1800	1830	1860	1880	1900	1913
Total developed countries	8	11	16	24	35	55
Total Third World	6	6	4	3	2	2
Memo:						
United Kingdom	16	25	64	87	100	115
United States	9	14	21	38	69	126

Elements of the colonial diktat (acc. to Paul Bairoch)

- colonies can import only products from the metropolis and tariff rates must be low, normally zero percent
- colonial exports can be made to the metropolis only from which they could be re-exported
- production of manufactured goods that can compete with products of the metropolis is banned (NAmerica: no right to process pig iron)
- transport between colony and metropolis is conducted only on metropolis' ships
- This is what Niall Ferguson calls **FREE TRADE** during the colonial era

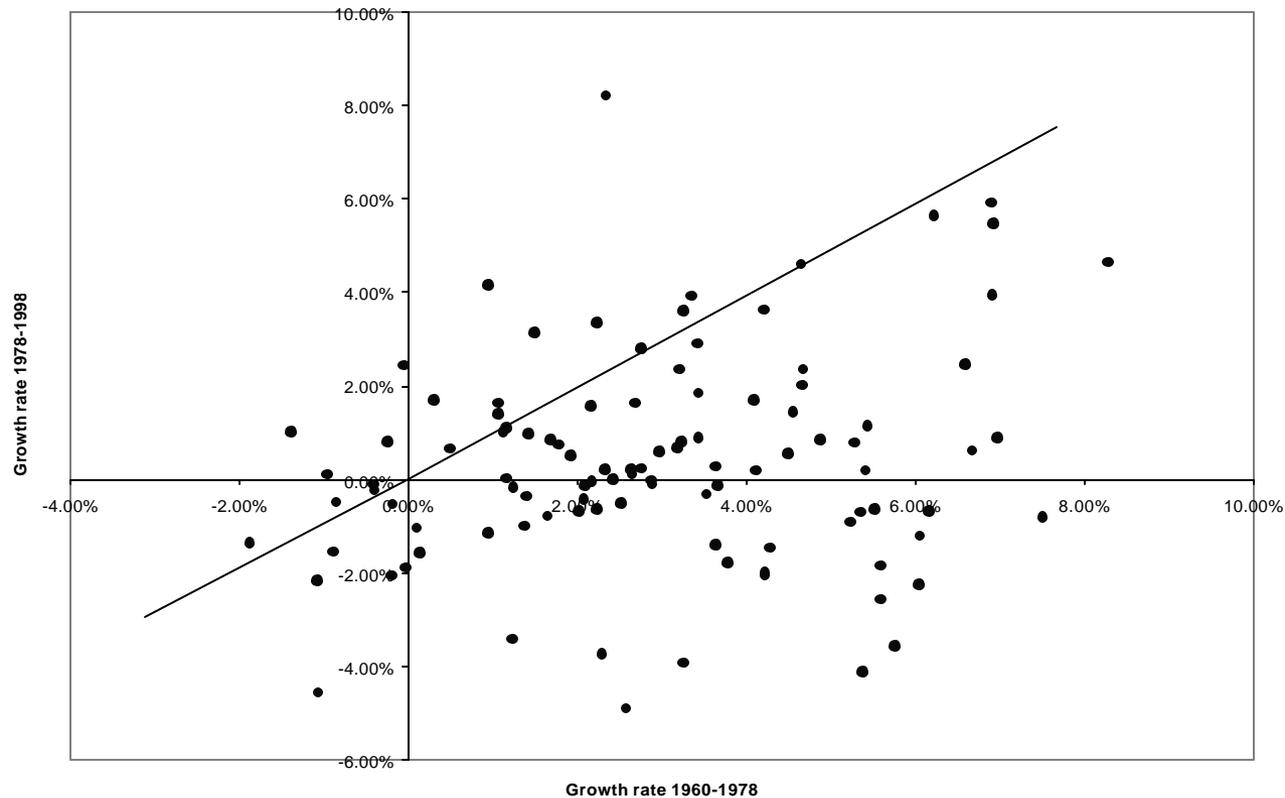
Point 2. 1918-1939: Income convergence among the rich world... when we expect income divergence



Convergence among the rich stronger during the disintegration stage

	Pooled regression		IV regression		Fixed effects	
	1870-1913	1918-1938	1870-1913	1919-1938	1870-1913	1919-1938
$\ln y_{it}$	-0.001 (0.78)	-0.018* (0.02)	-0.016 (0.68)	-0.013** (0.01)	-0.0009 (0.91)	-0.057* (0.02)
$\ln(n+\delta+\lambda)$	-0.008 (0.32)	0.025 (0.38)	-0.002 (0.89)	0.024 (0.12)	-0.011 (0.46)	0.073 (0.12)
Constant	-0.0007 (0.99)	0.235* (0.02)	0.02 (0.70)	0.19 (0.10)	-0.01 (0.88)	0.69** (0.008)
No. of observations	127	90	109	69	127	90
R^2	0.01	0.05	0.00	0.13	0.01	0.07

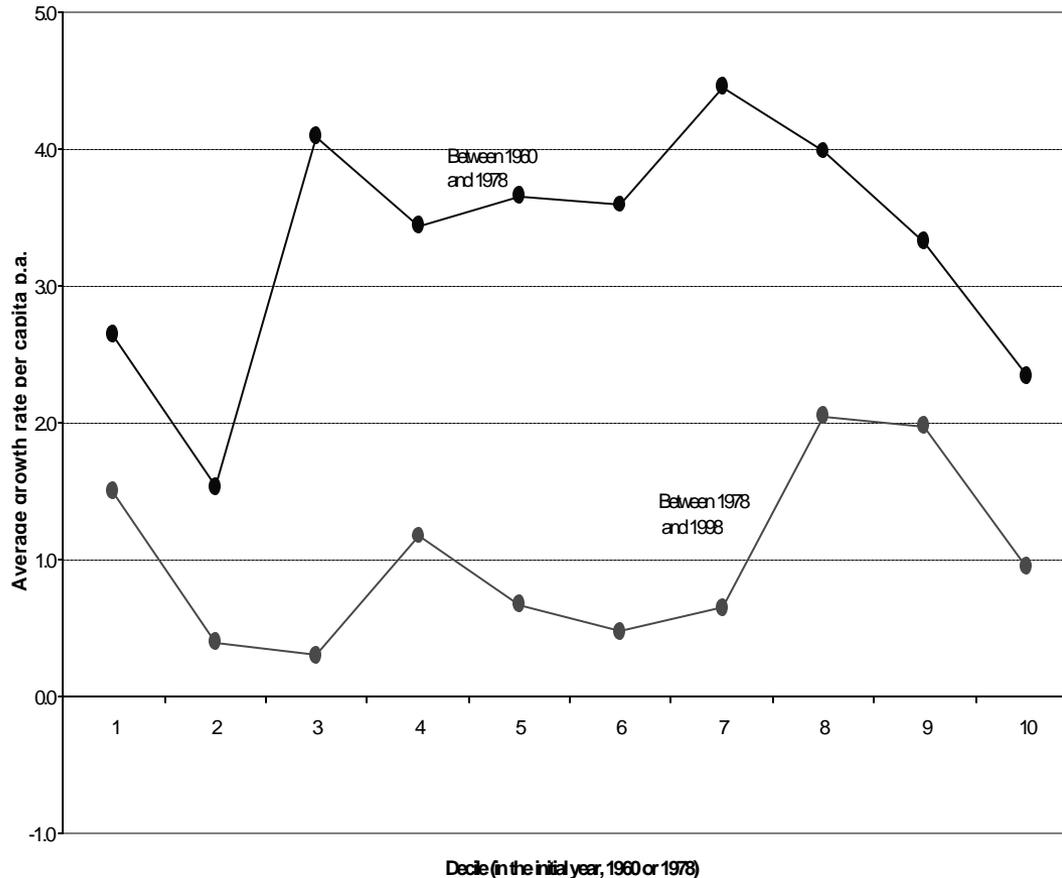
Point 3. Countries had generally had higher growth in 1960-1978 than in 1978-2000



Compare Period 1 (1960-78) to Period 2 (1978-98)

Average p.a. and per capita growth rate by decile

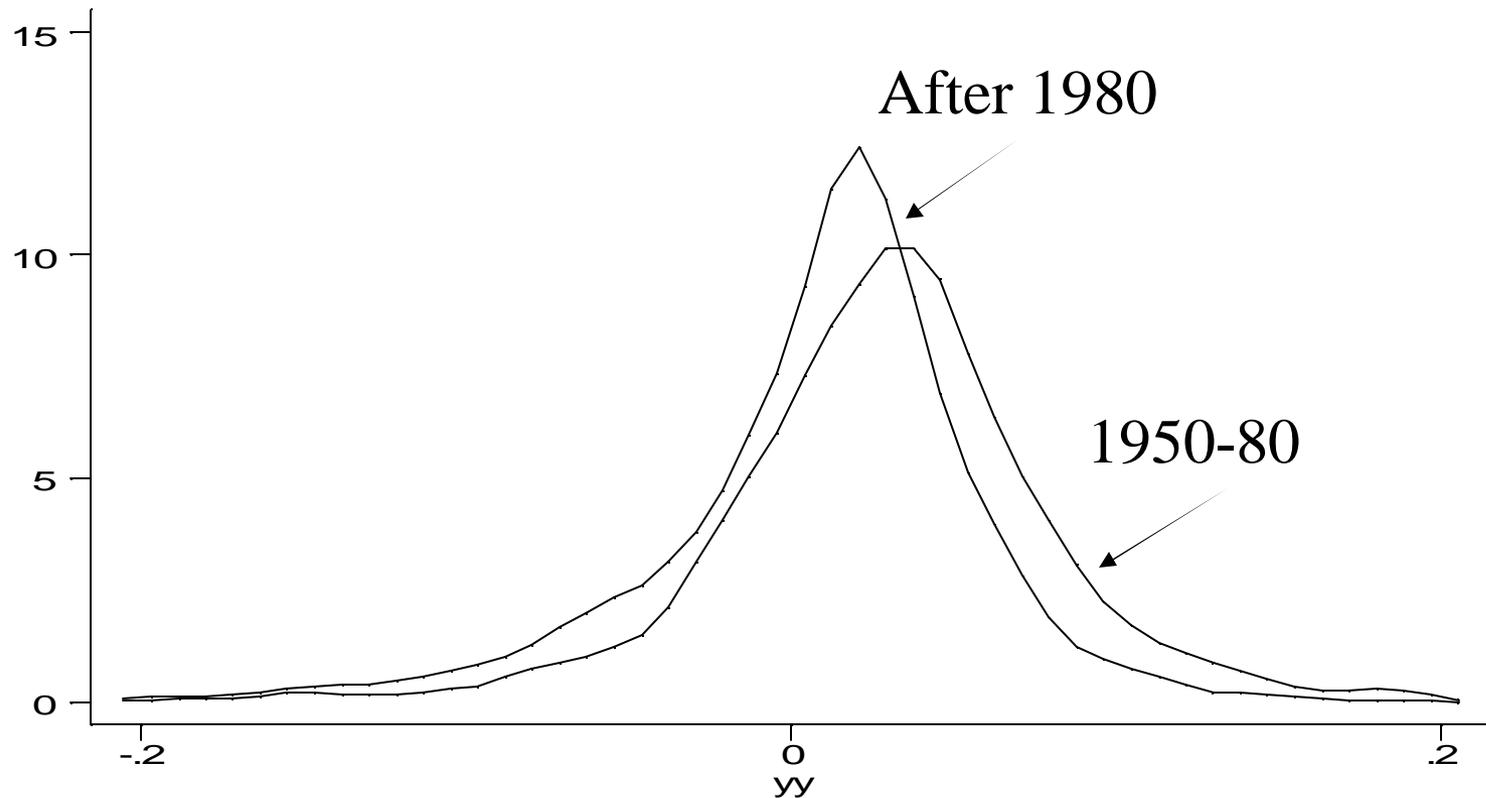
(deciles formed acc. to GDP per capita of the initial year, 1960 and 1978)



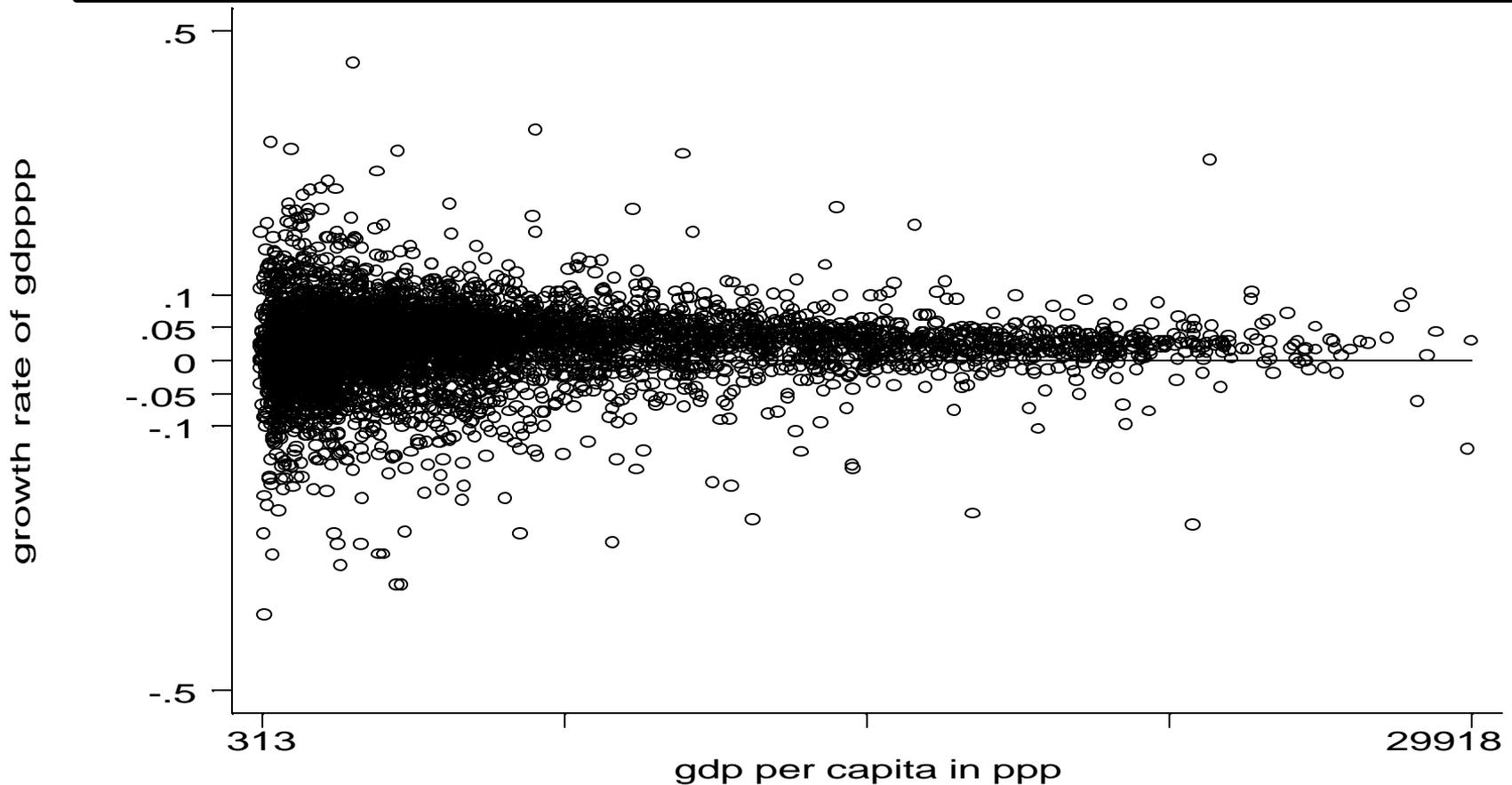
Conclusions.

- Every decile grew faster in Period 1 than in Period 2.
- Countries between 3rd and 7th decile grew the fastest in Period 1; countries of the 8th and 9th decile grew the fastest in Period 2.

In 1980-2000 period: mean, median growth rate are less, and the left tail is longer

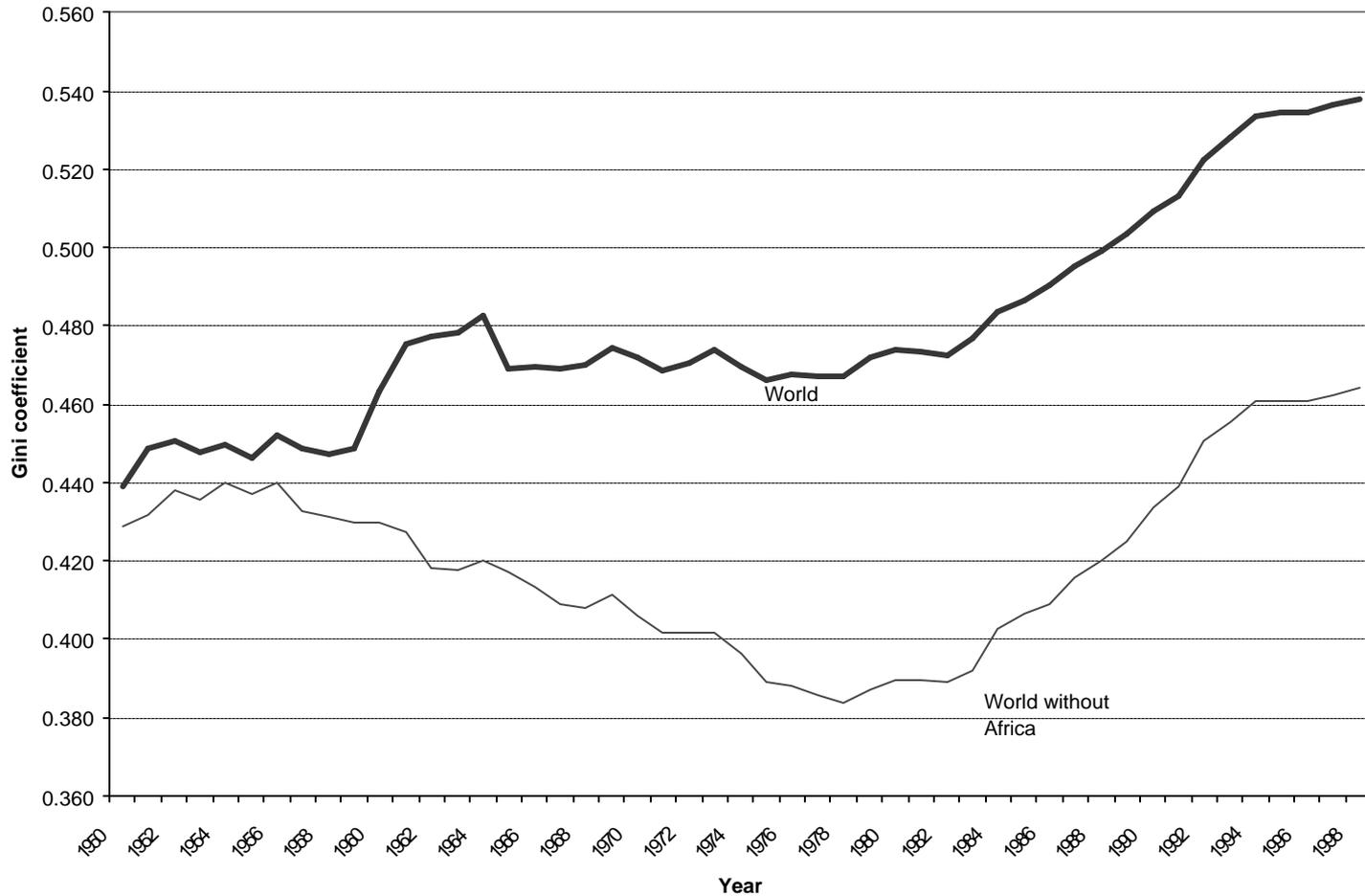


Poor countries' growth rates are much more variable, 1950-2000 (130+ countries)



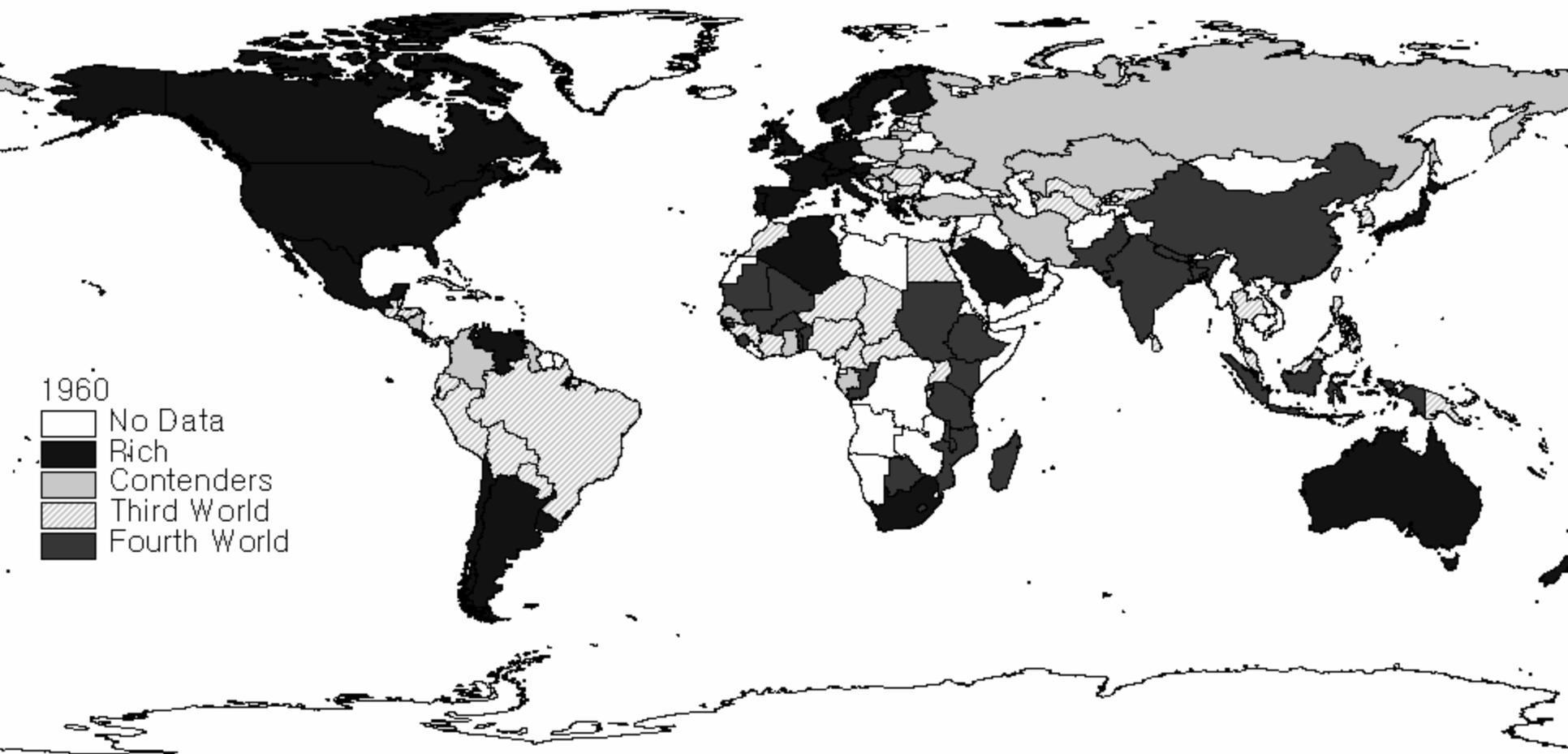
Countries' performances have diverged over the last two decades

Unweighted inter-national inequality, 1950 to 2000

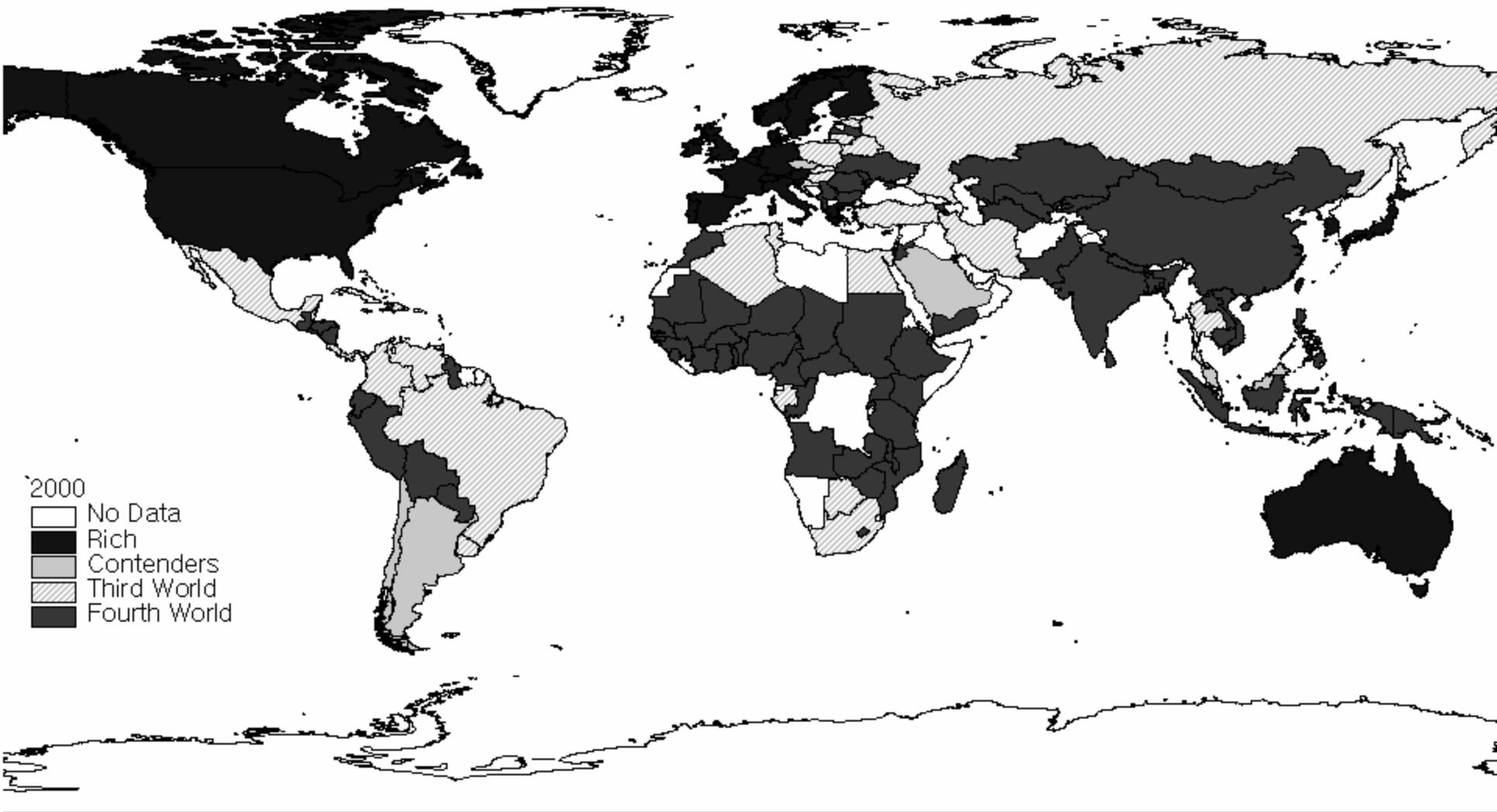


And it is not only because Africa is falling behind

The Four Worlds in 1960



The Four Worlds in 2000



Tentative conclusions

- Washington consensus policies have delivered much less than they originally promised
- Integration has not been accompanied by income convergence but by divergence
- However, China and India have performed much better and hence the increase in inequality between people might have come to a halt

National policies that require rethinking

- Too much energy expended on reducing inflation below 10 or 20% (effects not detrimental to growth or inequality; trade-offs sharp)
- Inequality matters because of its negative effect on growth via education, health, misallocation of labor, political instability or high taxes
- Privatization. Not every privatization is good. It depends how one sells, what one sells (public services), whether there is a monopoly or not etc. Lots of unhappiness with distributional effects of privatization (“grabbing”).

- Deregulation is not always the solution. Examples of utilities, network industries (Argentina, UK railroads) and prisons (UK, US).
- Capital account openness increases volatility
- User fees for education and health slow down acquisition of education and reduce health level, both affecting real GDP per capita, and perpetuate class differences
- Success of private capitalization of pensions largely a myth (Chile, Argentina, UK)

Global policies in need of revision

- Slanted rules of the games (WTO, IFIs). Low representation of the poor countries, policies that favor the rich (TRIPs, agro subsidies, liberalization of financial services etc), high costs of enforcing WTO rules
- Immigration policies not addressed
- Asymmetric globalization (yes to capital and goods, no to labor and technology)

Global inequality

World international dollar inequality in 1988 and 1993 (distribution of persons by \$PPP and \$ income per capita)

	Full sample			Common sample		
	1988	1993	1998	1988	1993	1998
<i>International dollars</i>						
Gini index	61.9 (1.8)	65.2 (1.8)	64.2 (1.9)	62.2 (1.8)	65.3 (1.6)	64.1 (1.9)
Theil index	71.5 (5.8)	81.8 (6.1)	79.2 (6.3)	72.7 (5.6)	81.7 (5.5)	78.9 (6.6)
<i>US Dollars</i>						
Gini index	77.3 (1.3)	80.1 (1.2)	79.5 (1.4)	77.8 (1.4)	79.9 (1.6)	79.4 (1.5)
Theil index	125.2 (7.1)	139.2 (7.5)	135.4 (8.3)	128.3 (8.1)	138.0 (9.3)	134.8 (8.7)

Note: Gini standard errors given between brackets.

The key determinants of global inequality

Interaction between

- 1. the rich countries of the West,**
- 2. urban incomes in China and India**
- 3. rural incomes in these two countries**

The ratio between (2) and (3) has been rising, and is unlikely to moderate. Moreover, while China and India are the most important examples of the trend, the urban-rural gap is rising in several other Asian countries (Bangladesh, Indonesia, Thailand).

But as (2) catches on (1), world inequality is reduced.

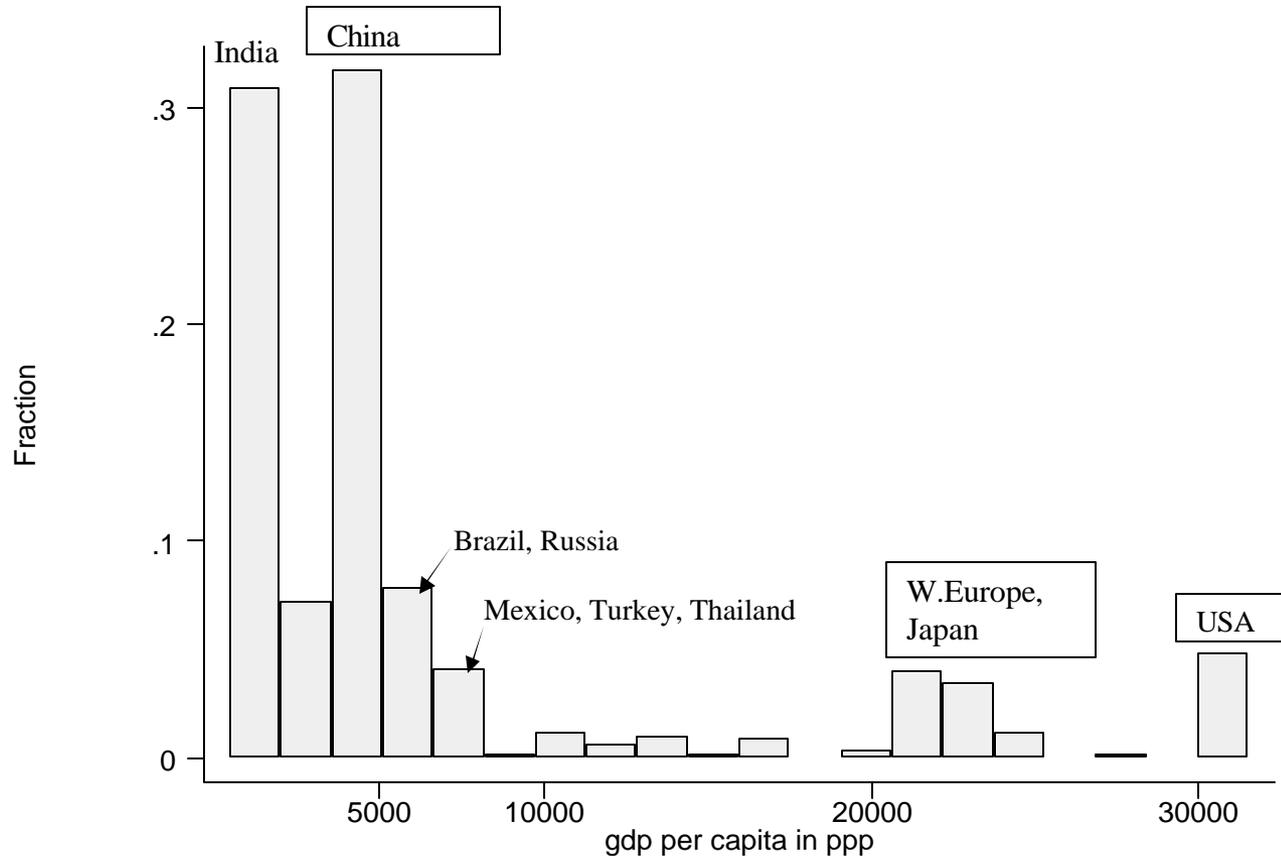
The crucial “swing” factor then becomes the ratio between (3) and (1): what happens to rural incomes in China and India vs. incomes of the rich world. If the former catch up, world inequality goes down; if they do not, world inequality tends to rise.

Some global ratios

	Top share in total world income (in %)	Bottom share in total world income (in %)	Ratio
5 percent (\$PPP)	33.3	0.3	100 to 1
10 percent (\$PPP)	50.0	0.8	63 to 1
5 percent in \$	45.0	0.15?	300 to 1?
10 percent in \$	67.5	0.45	150 to 1
5 top countries (GDP per capita)	31850	570	56 to 1
10 top countries (GDP per capita)	28066	660	42 to 1

A World Without Middle Class

Distribution of people in the world according to GDP per capita in international dollars of country where they live (year 2000)



Using Birdsall, Graham, Pettinato definition of the middle class (75-125% of the median, or \$PPP 1000 to \$PPP 1660)

- There is only 17.4% of world population who are “middle class” (less than in Brazil or Panama)
- They receive only 6.5% of world income
- Their mean income is 37% of the world mean income (in West, 85% of country mean)
- 30-35% of the mean is normally the relative income of the lowest or the second decile

Poor people in poor countries? How many are they? Almost 4 billion.

Rich people in rich countries? About 700 million.

*Poor people in rich countries; rich people in poor countries?
About a hundred million each.*

Brings us to almost 5 billion people? So, where is the middle?

Correspondence between poor countries and poor people in the world (in million people; 1998; household survey data)

Persons	Poor people	Middle-income people	Rich people	Total population
Countries				
Poor countries	3879	210	96	4185
Middle-income countries	189	35	52	277
Rich	92	115	707	913
Total population	4160	360	855	5375

Note: Full sample countries (122 countries). Poor below mean income of Brazil, or social assistance eligibility in the West (about \$PPP 10 per capita per day).

Does global inequality matter?

So, even if globalization leaves overall inequality unchanged...

- Within-countries, it means that rich Americans will gain 18 times more than poor Americans, Brazilians 40-1, Indians 12-1, Nigerians 30-1...(based on deciles)
- Differentiate between absolute and relative gains
- Issue of perception and “fairness”

What is the correct utility function?

- Is it simply: $U_i = fct(X_i)$ where X is a vector of consumption?
- YES, according to Ann Krueger (2002):
- “Poor people are desperate to improve their material conditions in absolute terms rather than to march up the income distribution. Hence it seems far better to focus on impoverishment than on inequality.”

Or is it $U=fct(X_i, X_i/X_{mean})$ where relative consumption matters too?

- YES, according to Kuznets (1954).

“...one could argue that the reduction of physical misery associated with low income and consumption levels...permit[s] an increase rather than a diminution of political tensions.”

BECAUSE

“the *political misery* of the poor, the tension created by the observation of the much greater wealth of other commodities, the failure to utilize the patently increasing potential of economic production and welfare, may have only increased.”

- Then, with globalization the relevant (mean or median) consumption increases as people get to know more about each other
- And even when X_i increases, if X_i/X_{mean} goes down, people may be unhappy.

This is why global inequality matters!!