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Catching up

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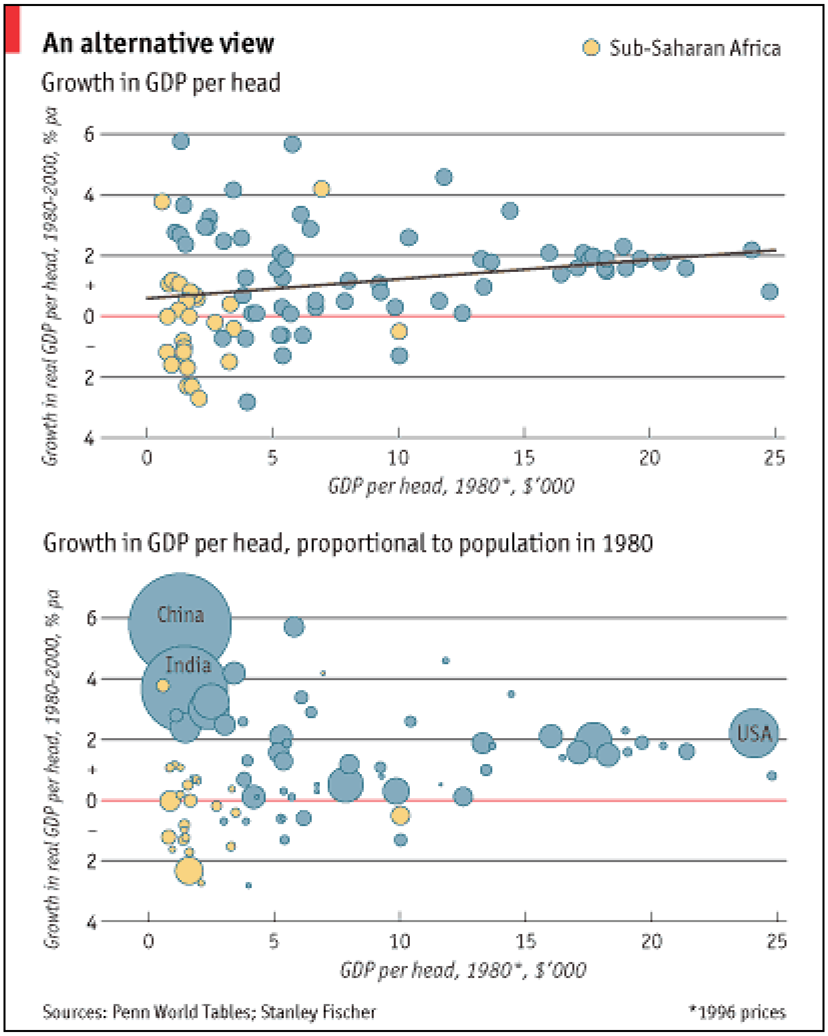
If you consider people, not countries, global inequality is falling rapidly

EARLIER this year, Stanley Fischer, formerly of the Massachusets Institute of Technology and the IMF, now a senior executive with Citigroup, delivered the prestigious Richard Ely lecture at the annual meetings of the American Economic Association. It was a privilege he would have preferred not to be granted, since he was standing in for his old friend, Rudiger Dornbusch, who died last year. Nonetheless he used the occasion to memorable effect, delivering a fine tribute to Dornbusch and then an overview and defence of globalisation that Dornbusch himself, an economic internationalist if ever there was one, would have been proud of. The lecture has now been published*.

The whole essay deserves to be read carefully by globalists and anti-globalists alike. But packed in alongside lots of other good stuff is a pair of charts that deserves an even wider circulation. Admittedly, the diagrams are complicated at first sight—but they are worth the effort. Once one has understood them the answers to some of the most important questions about globalisation are clearer.



Begin with the top chart. Each point represents a country. The vertical axis shows average annual growth of income per head between 1980 and 2000; the horizontal axis shows the level of income per head in 1980. Note in passing that the countries of sub-Saharan Africa are distinguished from the others: they are clustered in the lower left-hand corner of the diagram, representing both very low incomes and very slow growth.

In the last 20 years of the 20th century, globalisation, however you measure it, was advancing rapidly. Globalisation, according to its advocates, helps poor countries to catch up. So what one would wish this chart to show is a marked downward-sloping pattern of points: saying, in effect, the poorer any given country, the faster its growth. The chart shows no such pattern. In fact, a line of best fit through the scatter of points (as shown) slopes slightly upwards, implying that, on average, the rich are getting richer faster than the poor are getting richer.

In the bottom chart, the axes and the countries plotted are the same as before, but the points are now drawn as circles whose areas are proportional to the population of the countries concerned. Whereas the first chart gave a sense of how the poorest countries in the world are doing in relation to the richest, the second chart shows how the people living in the poorest countries are doing in relation to the people living in the richest. Switching the focus to people transforms one's impression of the figures, for now one sees a strongly downward-sloping pattern. The poor, on average, are catching up. And the main reason is that two of the poorest countries in the world—China and India—have both (a) enormous populations and (b) rapid growth in incomes per head in the years in question.

Encouraging as that may be, an anti-globalist would draw attention to the very large number of people (as well as countries) who suffered not merely from slow growth but from negative growth—falling incomes per head—in the 1980s and 1990s. This is true, but is it just a coincidence that India and China, both of them rapid globalisers, did so well, whereas the countries of sub-Saharan Africa (in particular) combined severely limited economic integration with dismal economic performance? Bearing this in mind, the more closely one looks at the charts, the stronger the case for globalisation seems. The real question—at least so far as reducing global poverty is concerned—is not whether globalisation is a good thing, but why some countries (and in Africa's case an entire region) find it so difficult to participate. The answers, as Mr Fischer relates, are complicated. Rich- and poor-country governments alike are partly to blame.

America and the European Union both maintain trade restrictions that hurt the developing countries. They have been promising reform for years, but the world is still waiting. Mr Fischer calls for "significant increases" in aid, though he acknowledges that aid will need to be more selective if its patchy record of success to date is ever going to be improved.

But governments of the poorest countries themselves bear much of the responsibility. Many of the world's highest trade barriers are those imposed by poor-country governments on trade with other poor countries—to say nothing of the failure to provide security or stability, or of the enormous sums (including money received as aid) squandered on vanity public projects or luxuries for the ruling circles and their chums. For countries with governments like this, globalisation is always going to be difficult to achieve. Nonetheless, it cannot hurt to understand that the problem is not too much globalisation, but too little. If you ever need reminding of this, look at Mr Fischer's charts.

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* "Globalisation and Its Challenges". By Stanley Fischer. AEA Papers and Proceedings. *American Economic Review*, volume 93, number 2, May 2003.