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Global growth, inequality, and poverty: the globalization argument and the “political” science of economics

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Part V

Development, Equality, and the Environment

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Global Growth, Inequality, and Poverty

The Globalization Argument and the ‘Political’ Science of Economics

Robert Hunter Wade

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Reader’s guide

The head of a Chinese family said to a BBC interviewer, ‘You, in the West, all have washing machines, and refrigerators, and TVs. Why shouldn’t we Chinese have the same?’ Migrants flooding into Europe and North America voice the same aspiration. According to the free market argument, also known as the neo-liberal globalization argument, an international economic order in which nations are as closely integrated to each other as the states of the United States or at least the members of the European Union – so as to make it very easy for goods, services, capital and people to move quickly across borders without having to face government "intervention" -- is the best type of world order to ensure that ordinary people everywhere enjoy substantial improvements in capabilities for human flourishing —including washing machines. The same type of world order also tends to drive political systems towards democracy, as capitalism and democracy fortify each other. The argument concludes that free markets and steady movement towards ever closer integration broadly align the interests of rich countries and poor countries, dominant classes and subordinate classes, thanks to the way that free markets open opportunities and ensure that profit-maximizing firms allocate resources to their most efficient uses (not to cronyism or an easy life). The present income gaps between North and South, core and periphery, and rich and poor people are lags in the catch-up of the poor world to the prosperity of the rich world, not a result of a global hierarchy inherent in the system of capitalist economies organized into nation states.

In the absence of global government, knowledge of the trends in *global* growth, inequality, and poverty is not of operational interest to any government. But the knowledge is of operational interest to the nearest we have to global economic government, namely the global economic multilateral organizations (GEMs) such as the World Bank, the International Monetary Fund (IMF), the World Trade Organization (WTO), and interstate organizations of more limited scope, such as the Asian Development Bank and the Organization for Economic Co-operation and Development (OECD). Since the 1980s, these bodies have been mandated by their member states to implement what has come to be known as the Washington Consensus— deregulate markets, privatize public enterprises, promote 'maximum shareholder value' as the objective of firms, cut taxes and public spending, open national economies to cross-border trade and investment, and harmonize national regulations so as to give economic actors a global 'level playing field', undistorted by state restrictions. The globalization argument provides the intellectual legitimacy for this mandate, and warns that mutual benefits will be at risk if countries start to backslide on market liberalization.

The Washington Consensus is now appropriately called the Washington–Brussels Consensus—as seen in the fact that the 'austerity' agenda imposed by northern Europe and the IMF on southern Europe in the wake of the Eurozone crisis of 2010 is justified by the same broad ideas. Global conditions as of 2016—with hardening prospects of a new slump in economies still to shake off the crisis of 2008, amplified by tit-for-tat trade wars—raise doubts that it will be possible to return to the pre-2008 growth regime of 'finance-driven globalization'. Developing and developed countries must rethink their globalization strategies (UNCTAD 2015*a*, 2016).

This rethinking is all the more necessary because, as this chapter shows, the evidence for the globalization argument is not as robust as the policy mainstream presumes. The chapter begins with an examination of trends in globalization over the past century, and the kind of evidence provided by mainstream economists to support the argument. Then it turns to a description of global-level trends in growth, inequality, and poverty over the past few decades, and shows how our knowledge is dappled with ambiguity, not nearly as favourable to 'globalization works' as the policy mainstream presumes. The penultimate section suggests why the consensus among economists about the virtues of globalization has been so resilient. The conclusion summarizes, and spells out some challenges for economists, especially in the field of professional ethics.

Much of the discussion is framed with the convenient—but too simple—dichotomy between developed and developing countries. Keep in mind the proportions. In 2014 developing countries accounted for 84 per cent of the world's 7.2 billion people, and about 35 per cent of world output. The average resident of developing countries has a share of world output equal to roughly one tenth that of the average resident of developed countries – after decades of 'development'. Why?

> The laws of economics are like the laws of engineering. One set of laws works everywhere. [They may be summarized as:] privatization, stabilization and liberalization.
>
> (Lawrence Summers (1991) quoted in Klein 2007: 218)

> Today, we have a virtual consensus across the political spectrum in government on at least three points: our public spending must diminish, our economies still have too much inflexibility and we aren't competitive enough.
>
> (Jean-Claude Trichet, former governor of the Banque de France and the European Central Bank, 2016)

> Any given decision you make you'll end up with a 30 to 40 per cent chance it's not going to work … You can't be paralyzed by the fact that it might not work out. On top of that, after you have made your decision, you need to feign total certainty about it. People being led do not want to think probabilistically.
>
> (President Obama, quoted in Lewis 2012: 171–2)

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Introduction

'Globalization'—a portmanteau word embracing high integration of national economies in terms of trade, investment, and finance, and an ideology favouring privatization and market liberalization—became a buzz word across the social sciences in the second half of the 1990s. Its ascent was synchronized with the post-Cold War revival of an older Euro-American ideal of the 'mission to civilize'.

The 'international community', as the European and North American states call themselves, sees as its duty to bring capitalism and democracy to less fortunate, poorer nations in the global South; and thereby to expand sources of supply and demand, to mutual benefit. As US Secretary of State Condoleezza Rice explained, it is America's job to remake the world order, in its own image (2008). Where necessary this should be done by 'hard power' military intervention, as in colonial days, or by economic sanctions (Russia, Iran, North Korea); but normally it should be done by 'soft power', by persuading peoples everywhere that capitalist globalization brings large mutual benefits—more than conflicting interests—in terms of higher economic growth, widening opportunities, falling poverty, and falling inequality. International organizations run largely by Euro-American states, such as the World Bank, the IMF, and the OECD are key agencies for propagating belief that a world order based on globalization policy is the best route to higher income and wealth. Liberalizing trade and inward foreign investment, freeing domestic markets from state restrictions, privatizing the provision of infrastructure and public services, cutting taxes, and 'good governance' reforms have become central to their *modus operandi* in developing countries. Bilateral aid programs of Euro-American states and Japan back up their efforts; as does a dense network of neoliberal think tanks devoted to spreading and defending the orthodoxy, many of them spawned and coordinated by the Mont Pelerin Society and the Atlas Economic Research Foundation (since 2011, Atlas Network).

The term 'globalization' became prominent in the 1990s but the underlying ideas about appropriate public policy—often called 'neo-liberalism'—began to crystallize as 'global policy' around 1980. This happened in the wake of the breakdown of the **Bretton Woods** economic architecture in the early 1970s, followed by rising inflation, the rise of free market political movements starting in the United States and Britain, and the collapse of the West's unifying enemy, the communist bloc, in the late 1980s. Neo-liberalism has provided the model for global policy ever since. The Crash of 2008 and ensuing great recession have done little to blunt its hold, in contrast to the social democratic response to the Crash of 1929 in North America and parts of western Europe.

What is the meaning of 'neo-liberalism' and 'global policy'? Neo-liberalism is an economic philosophy about the best way for an economy to create wealth and distribute material well-being. One of its founding fathers was Friedrich Hayek (1899–1992), who developed it in opposition to the economic philosophies of Nazism, Fascism, Stalinism, and John Maynard Keynes (1883–1946). Hayek emphasized that individuals operating in a market have only fragmented knowledge of particular circumstances close to them, rather than holistic or encompassing knowledge of economy and society. Moreover, no central organization can have reliable knowledge—or knowledge more reliable than the aggregation of undirected market exchanges. So the state should maintain social order, enforce property rights and free entry to sectors, and ensure market competition and a stable financial system. It must not try to stimulate the growth and diversification of production, let alone impart directional thrust, and must not attempt to redistribute income and wealth more than marginally. It should support capitalists in their relations with 'labour', for capitalists are the creators of wealth and employment. Hayek accepted, in passing, that guaranteeing to all 'some minimum of food, shelter and clothing, sufficient to preserve health' would not endanger 'general freedom'; and he approved, in passing, of publicly provided healthcare on grounds that no fair market price could be determined (1944: 120). But beyond these limits, he said, lies 'the road to serfdom' -- totalitarian regimes. Hayek's melding of neoclassical economics with a political philosophy emphasising maximum freedom of the individual—particularly of the owners and managers of capital—is the basis of modern neo-liberalism.

The philosophy recognizes that markets may sometimes fail, but asserts that—with exceptions related to '**public goods**'—the costs of state 'intervention' to fix market failures are generally higher than the benefits (where benefits are calculated with reference to the model of perfect competition as the ideal). In its modern version, it calls for wage growth to be kept below productivity growth (allowing incentivizing profits to grow as a share of national income); for monetary policy to target inflation and let employment take care of itself; for central banks to be 'independent' ; and for fiscal policy to sustain no more than low budget deficits in the context of no more than lightly progressive income taxes. It downplays the aggregate demand side of the economy as a subject for public policy; and therefore also downplays how high inequality of income and wealth restrict demand and floods of financial capital sloshing around the world in search of higher short-term returns. Western economies applying this doctrine since the 1980s have staved off the resulting tendencies to stagnation mainly by some combination of increased public and private borrowing (notably in the US), booms in financial assets and real estate, and increased exports, this combination generating the impetus to the North Atlantic Crash of 2008, the eurozone crisis of 2010, and perhaps an 'emerging market' debt crisis or US stock market crash to come.

As for 'global policy', the phrase means policy developed by actors who claim to think for the world and who play an advocacy role in multiple states and transnational forums. Examples of global policy actors include the above-mentioned interstate organizations, private bodies like the International Accounting Standards Board, transnational think tanks, and also powerful national agencies like the US Treasury and State Department, and the UK Treasury.

Economists, especially those of the Anglo-American school (the pinnacle of economics worldwide, outside of North Korea, Iran and a few other places), have championed the globalization world order project. They argue that the general movement towards free market policies and mobile production after 1980 caused a general movement towards income convergence rather than divergence, towards less poverty and more equality. According to Martin Wolf, distinguished columnist for the *Financial Times* and author of *Why Globalization Works* (2004*a*, 4):

> It cannot make sense to fragment the world economy more than it already is but rather to make the world economy work as if it were the United States, or at least the European Union … The failure of

> our world is not that there is too much globalization, but that there is too little. The potential for greater economic integration is barely tapped.

A senior economist of the premier investment bank Goldman Sachs coined BRICs to bracket Brazil, Russia, India, and China as large and fast growing 'emerging markets', presented as only the top of a wider 'rise of the South', signalling an historic change in the distribution of economic weight and political influence in the world economy—and in where smart investors should put their money. The president of the World Bank, Robert Zoellick, declared in 2010 that the distinction between developed and developing countries was now obsolete.

> If 1989 saw the end of the 'Second World' with Communism's demise, then 2009 saw the end of what was known as the 'Third World'. We are now in a new, fast-evolving multipolar world economy—in which some developing countries are emerging as economic powers; others are moving towards becoming additional poles of growth; and some are struggling to attain their potential within this new system.
>
> (Zoellick 2010)

In effect, Zoellick was saying that we are at the end of the Truman era—which began in the early post-war years when President Truman called on the West to take up the challenge of using 'our' knowledge and resources to deliver development to the rest of the non-communist world.

We can agree that economic development, in production and consumption, has never proceeded so fast and on such a wide front in the world economy as it has since the 1950s. We can also agree that both low- and middle-income countries have grown at some 3 to 5 percentage points faster than the high-income countries from around 2003 to 2012—a historically unprecedented gap in favour of developing countries. The four BRICs shot up the world ranking of **gross national income (GNI)** between 2000 and 2013 (by the World Bank's Atlas method, in current dollars)—China from seventh to second biggest economy, Brazil from ninth to seventh; Russia from twenty-first to ninth; and India from thirteenth to tenth. China and India's ascent puts them in line to regain their position as the two biggest economies, which—with the two biggest populations—they occupied for about 1,800 of the past 2,000 years.

On the other hand, they remain far down the ranking of average incomes: China in 2013, 85th, up from 123rd in 2000; India in 2013, 145th, up from 148th in 2000. (Take these rankings with a grain of salt, because different ways of comparing income and production produce different rankings.) Never before have the world's ten biggest economies included several far down the ranking of average income. Earlier, the G7 countries, which constituted the top table of global economic governance, were highly ranked in both GDP and GDP per capita, making for a broad homogeneity of interests. Today, the same correlation within the G20, which calls itself the new top table of global economic governance, is much lower, greatly complicating global agreement.

Most analysts present 'the rise of the South' as the pay-off from decades of patient globalization. Implicitly using linear projections, they expect catch-up growth in developing countries to continue indefinitely, with blips. They stress that the world's governments—especially those of developing countries—should keep pushing ahead with market liberalization as the core of their (micro) economic policy agenda; leavened in the past two decades by the magical ingredients of 'good governance' and 'anti corruption' . But while governments should keep expanding the scope for 'exchange', they should not get their hands dirty by directly boosting production capabilities. In particular, they should not undertake 'industrial policy' to accelerate the diversification of production structures (beyond what would result from generic improvements in infrastructure and market institutions), such as the industrial policy practised by the East Asian capitalist governments during their fast-industrialization phase, or the more primitive type of industrial policy practised by the US and continental Europe as these regions caught up with Britain, the first industrializer.

For example, the World Bank has long deployed the Country Policy and Institutional Assessment (CPIA) formula to score countries by the 'goodness-for-development' of their policies and institutions, and then factors the score into its lending decisions and country dialogues. The scoring criteria for the trade regime imply that a completely free trade regime is best for development. The criteria for labour markets give the highest score to countries with minimal worker protection and maximum employer flexibility (Wade 2010).

As of 2016 the World Bank and other such organizations no longer preach a hard version of the Washington Consensus; but a fairly hard version remains wired into their cultures and their operating procedures.

Legitimized by the Washington Consensus, most developing country governments have sought to accelerate their integration with developed economies by signing bilateral or regional trade and investment agreements – yet these agreements restrict their ability to complement improved market access with the macroeconomic and industrial policies needed to intensify input-output linkages within the domestic economy. Many of these agreements also require 'investor-state dispute settlement', by which foreign corporations can sue host governments for actions which threaten the corporation's expected future profits (even including regulations to curb cigarette smoking or protect rainforests). They sue governments at an ostensibly neutral international arbitration panel, which operates in high secrecy with a pool of lawyers and arbitrators drawn mostly from western countries, who face obvious conflicts of interest (the prosecutor for a corporation today may be an arbitrator tomorrow for a case prosecuted by today's arbitrator). The panel cannot adjudicate governments suing corporations for failure to fulfil their responsibilities. Such panels have awarded damages against governments running into billions of US dollars, and even just a corporation's threat to bring a suit has been enough to chill socially responsible regulation.

The owners and managers of Western capital remain, post-Crash, powerful advocates and lobbyists for neo-liberal globalization. They managed to convert the initial policy response of a Great Re-regulation in 2009 into the Great Escape from regulation by 2011. They used the Crisis to push governments—seeking to reduce public debt—to privatize public services and thereby convert state provision of public goods out of general taxation into private provision of services (health, education, transport, other infrastructure) financed by arrangements (often state-guaranteed) which generate near-monopoly profits for private capitalists; while governments have also enabled banks to blow politically popular house price bubbles, politically popular because they seem to boost individuals' principal source of wealth and protection against failing pensions. In turn Western governments continue to push the international organizations that intermediate between them and developing country governments to advocate neo-liberal globalization norms, with qualifications at the margins.

Blessed by these norms, the post-Crash system of financial regulation still allows banks to remain 'too big to fail' (a dozen banks now dominate the world's financial system, as before 2008, which each own assets of more than $1 trillion whereas economies of scale in banking fall away beyond assets of around $100 billion). Some banks have been fined, but not senior bankers; yet no company can break the law unless people in the company break the law—to fine companies but not people is like fining Route 66 for speeding. Governments have relied largely on 'quantitative easing' of monetary policy to stimulate aggregate demand, which tends to generate asset booms and raise the share of wealth held by the already rich. The post-Crash system of financial regulation is a recipe for more rounds of the doomsday cycle of bubbles and 'trubbles'—leading to further entrenchment of 'oligarchic-impunity capitalism' in the politically powerful sectors.

The Swahili proverb says, 'Until the lions have their own historians the history of hunting will always glorify the hunters'. The praise for globalization, and the wiring of neoliberal globalization norms into international treaties and the operating procedures of international organizations, illustrates history being written and rules being set by the winners. It is in line with what could be called a 'law' of modern-era power hierarchies: elites legitimize their success in terms of universalistic, meritocratic qualities, like initiative, hard work, and Christianity, and legitimize others' lower rank in terms of their failure to match these qualities (their dedication to identity politics, corruption, leisure). Hence we have a vast literature on 'poor economics', but no 'rich economics'. 'Poor people' are a problem for social scientists, 'rich people' are not.

This chapter argues that economists, who collectively have more influence over the life-chances of others than all other social scientists, have oversold the virtues of market liberalization, displaying confidence in derived policy prescriptions well beyond the evidence. Their confidence in advocating always more market liberalization (less crowding out by government), more market integration in both developing and developed countries ('ever closer integration' in the European Union), overlooking the question of how governments can help to shift the structure of the national economy towards higher value-added activities, is part of a more general pattern of downplaying the limits to their expertise and the dangers associated with their prescriptions. Of course, many academic economists delight in finding theoretical or empirical qualifications to the mainstream prescriptions, and some win so-called Nobel Prizes for doing so. But when they—especially their policy colleagues in organizations like the World Bank, IMF, and the OECD—prescribe what others should do they tend to retreat to 'the free market fundamentals'; and to follow a former editor of *The Economist* who advised young reporters, 'simplify, then exaggerate' (*Economist*, 2011). In theory a government may produce national economic gains by managing trade in line with an industrial strategy, they say, but in practice any such project will be hijacked by special interests, so free trade is best in practice, for national economies and the world.

The most spectacular recent demonstration of hubris is the failure of almost the whole of the mainstream economics profession in the few years before 2007–8 to forecast a major recession. As just two examples among many, Jean-Philippe Cotis, chief economist of the OECD, declared in May 2007, 'the current economic situation is in many ways better than we have experienced in years … Our central forecast remains quite benign … [We expect the OECD to show] strong job creation and falling unemployment' (Cotis 2007). Anne Krueger, the American number two at the IMF, announced in May 2006 that 'the world economy has rarely been in better shape' (lecture at Claremont McKenna College; see also Wade 2016). One reason they got it so wrong is that the OECD, IMF, the Bank of England and most other such organizations have long used macroeconomic models -- 'dynamic stochastic general equilibrium' models --whose few financial variables are made to depend on real economy variables. They can handle an invasion from Mars better than they can handle a tightening of credit. They continue to be used despite their long track record of failing to forecast recessions even one year ahead. Indeed, the IMF, in its annual forecasts from 1999 to 2014, failed to anticipate any of the 220 cases when a member country had a recession the following year.

After reviewing evidence on the performance of the world economy in terms of economic growth, income inequality, and poverty, we will have a better idea of the 'epistemic uncertainty' around economists' prescriptions for more globalization, and the dangers posed by the combination of economists' high influence over the life-chances of others, their epistemic certainty, and their epistemic superiority vis-à-vis the public they serve.

Economic growth in long-term perspective

Most national economies have experienced increases in average real income in most years since around 1960. We take this as normal, but on a scale of millennia it is completely exceptional. Earlier, growth of production (perhaps due to the introduction of irrigation or other land-productivity-raising technology) was translated into higher birth rates to the point that the original living conditions were restored, a trend known as the Malthusian trap. Moving from where economic growth is exceptional to where it is normal amounts to a revolution in human civilization, up there with the Greeks and the Renaissance in the annals of human achievement.

One indicator of improving performance is the rate of growth of global production: over the eighteenth century, 0.3 per cent per year; the nineteenth century, 1 per cent; 1900–60, 2.4 per cent; 1960–2000, 4 per cent, meaning that in these 40 years it went up five times (Lucas 2004). Meanwhile world population doubled from about 3 billion to 6.1 billion during 1960–2000, at 1.7 per cent per year; so production per head rose at 2.3 per cent per year.

Another indicator is world average life expectancy at birth. It rose from about 25 years in 1800–1900, to 47.7 years in 1950–5, to 66.4 years in 2000–05. The other side of rising life expectancy is falling childbearing. Eighty-three countries, with 46 per cent of the world's population, now have fertility below replacement rate of 2.1 births per woman. Only 9 per cent of the world's population, almost all in Africa, live in countries with pre-industrial fertility rates of five or six children per woman.

However, until the 2000s average incomes grew more slowly in most of the developing world than in the developed world, especially in the last two decades of the twentieth century (when the globalization policy agenda was most strongly asserted). Today the average income gap between the 20 poorest economies and the United States is around 18–20, three times the figure for 1900. The larger part of global income inequality (inequality in the distribution between all the people of the world shoulder to shoulder, irrespective of country) has been, since the Industrial Revolution, horizontal, meaning inequality of average incomes in different places, rather than vertical. Cecil Rhodes, the nineteenth-century mine owner, philanthropist and champion of British imperialism and South African apartheid, captured horizontal inequality when he declared, 'Remember that you are an Englishman, and have consequently won first prize in the lottery of life.' The little island off the coast of northwest Europe, Great Britain, in 1913 controlled colonies 125 times larger than itself, covering a quarter of the Earth's land area and 24 per cent of world population. Rhodes could also have identified northern Europeans and North Americans as winners of the first prize, because these regions also forged ahead of the rest of the world in material living conditions through the nineteenth century.

'Catch-up growth' in a late-developing country fast enough and sustained enough for it to attain an average income of, say, 80 per cent of the average of the developed countries within half a century, has been rare. One main reason is that developed countries have typically tried to prevent developing countries from entering or remaining in dynamic sectors or segments of value chains with increasing returns to scale. That is part of what being a developed country is all about. During colonial times, actors in the European colonial project—governments, militaries, companies—created dependent colonial and New World slave economies to which they outsourced land-intensive production. This structure delivered an 'agricultural windfall', which allowed labour at home to be used for industrialization and provided an export market for manufactures. Having created this hierarchical structure, European and then North American actors had multiple means to sustain it. By mid-twentieth century they had established a powerful institutional complex for scientific discovery, where companies, public agencies and universities combine to transform discoveries into technological innovations, generating innovation-led, high value-added growth. A prime example of a developmental state is the US, whose industrial policy has been at least as vigorous and effective as anything in East Asia; but it is a developmental state in disguise, and one could even say that the most effective US industrial policy is make the rest of the world believe that the US does not do industrial policy (Lazonick 2008; Block and Keller 2011; Mazzucato 2013; Wade 2014, forthcoming). [EDITOR: ADD WADE, R., forthcoming, "The American paradox: the ideology of free markets and the practice of directional thrust", Cambridge J. of Economics.]

Just how difficult it is to achieve 'catch-up', let alone 'leapfrog' growth is suggested by the small number of non-Western countries that have become developed in the *past two centuries,* even stretching the categories of 'non-Western', 'developed', and 'country'. The list includes Japan, Russia, Taiwan, South Korea, Hong Kong, Singapore, Israel, maybe a few more. The shockingly small number testifies to the difficulties of sustained economic development. Notice that most of the countries had in common during their fast-industrialization phase both small populations and one or more powerful external enemy states plausibly threatening to end the state's existence. Without this unifying threat state incumbents might have been tempted to use their power to strangle opponents and redistribute resources to themselves rather than promote a national development project able to create a polity, economy, and society unified enough to dissuade an external enemy.

More evidence comes from a World Bank study (2013). It identifies 101 countries in 1960 as 'middle income'. Only 13 reached 'high income' by 2008, of which four are peripheral western Europe and five are East Asian. Of the 13, 70 per cent have populations of fewer than 20 million; only one is more than 50 million (Japan). In this study the income thresholds are defined in absolute terms.

A study by IMF researchers (Cherif and Hasanov 2015) defines income thresholds in terms of percentage of US GDP per capita ($PPP 2005, Penn World Tables 8.0). In a set of 167 low- and middle-income countries in 1970, only 9 reached high income by 2010 (the 75th percentile of the income distribution, at 46 per cent of US GDP per capita). Of these, 7 were small European countries, which had already reached upper-middle-income by 1970 (Cyprus, Czech Republic, Greece, Ireland, Malta, Portugal, Slovenia). Only two were non-European: Taiwan and South Korea. The latter shot from around 20 per cent of US income in 1970 to more than 65 per cent in 2010. In contrast, Malaysia was about 20 per cent in 1970 and 26 per cent in 2010. Thailand and Chile had roughly similar performance as Malaysia (Chile doing better over the 2000s thanks to the rise in copper prices).

Other researchers, also at the IMF, find that middle-income countries tend to experience more volatile growth than either low- or high-income countries, with periods of super-fast growth (GDP growth at 6 per cent a year or more) followed by protracted slowdowns (Aiyer *et al*. 2013).

Putting this and still more evidence together, we can conclude that a country going from lowermiddle to high income in fewer than four or five decades constitutes something of a 'miracle'. Some researchers conclude that the world economy contains a 'middle-income trap' (or 'non-convergence trap' or 'middle-capabilities trap'). Taken literally the idea of a 'trap' implies no possibility of reaching high-income, which is absurd (Felipe *et al*., 2014). But taken as a metaphor (like 'glass ceiling'), it highlights that the great majority of middle-income countries have remained in the middle-income range for several decades longer than the East Asian success stories, growing more slowly and with more ups and downs. Also, the phrase, 'middle-capabilities trap' usefully highlights the distinction between countries which achieve high income on a narrow range of exports (oil, diamonds, copper) and those with a diversified production structure (Paus

2014; Ergin 2015). Glass ceiling becomes a ‘glass floor’ for high income countries, because very few have fallen into the middle income range since 1960.

The fact that only a small number of countries since the 1950s have achieved the diversified production structures of countries now considered to be ‘developed’ , and that virtually all are on the European periphery or in East Asia, sits awkwardly with neo-liberal economics, which encourages the belief that resources of all kinds move fairly easily in a market economy from lower value-added to higher, as easily as toothpaste from a tube. As stated by Adam Smith (1723–90), one of the first theorists of capitalism and a proto-globalist, ‘Little else is required to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice, all the rest being brought about by the natural course of things’ (1755). Here Smith was surfing on the ideological revolution of the Reformation, which had reimagined the earlier medieval view of selfishness as a human frailty into self-interest as the basis of the good society; which led on to the conclusion that the wealthy should have not just power but also moral authority over the poor, because the wealthy, having succeeded through their talents and hard work, provide a model for the poor. Smith himself later qualified this argument in *The Wealth of Nations* and still more in *The Theory of Moral Sentiments*. But its continuing potency today is suggested by the statement of Harvard economics professor Gregory Mankiw, author of a leading economics textbook and former Chairman of the President’s Council of Economic Advisors, that ‘Adam Smith was right when he said [the above]’ (2006).

The argument implies that the world economy is an open system, with no hierarchical structure of core, and periphery, in which the prosperity of some classes and regions depends on the poverty of others. Development is like a marathon race in which the rank of each runner (country) is a function of its internal strengths, and all runners could conceptually cross the finishing line (prosperity) at the same time. Anyone who believes this should take another look at the short list of non-Western countries that have become developed in the past two centuries; and at the key role of colonial and slave economies in propelling the initial forging ahead of western Europe and north-east United States.

Globalization

Globalization can be traced in quantities as well as in ideas, interests, and institutions (three ‘i’s’ of global political economy). In all these domains the process has increased hugely over the past several decades. For example, the ratio of cross-border flows of goods, services,and finance to global GDP rose from around 22 per cent in 1992 to 53 per cent by 2007 – and then down to 39 per cent by 2014 (Donnan 2016). [ADD: Donnan, S. 2016, "Global trade: structural shifts", Financial Times, 2 March]

The globalization literature tends to slight the point that this increasing market integration has occurred in the context of a hierarchically structured world economy, with some countries and regions having more activity in dynamic, high profit and high wage activities, and able to set the rules for others. We can think of the structure as a core–periphery model, developed countries at the core and developing countries at the periphery (some more peripheral than others). The two parts are bound together, first, by the tendency for supply to exceed demand in the core (a point emphasized by the classical economists and later by John Maynard Keynes), making the core dependent on the periphery as a source of demand for its (mostly industrial and service) exports; and second, by the core's dependence on imports of natural resources from the periphery. The high-income elasticity of demand for industrial and service imports in the periphery and low income elasticity of demand for natural resources in the core mean that the periphery tends to run trade and current account deficits, financed by credit from the core (and by aid, foreign investment, and military bases). The periphery's foreign debt—which must be repaid in foreign currency, generally US dollars—easily rises above its capacity to repay, resulting in debt traps, followed by emergency loans from core-controlled international organizations and core banks freighted with tough privatizing and market-opening conditionalities. In this way the core–periphery structure tends to reproduce itself, as seen in the 'middle-income trap'. Of course, this is a highly simplified model, which omits major real-world complexities (including hegemonic rivalries within the core, the position of the US as large-scale international debtor, and China escaping periphery traps).

Within the core–periphery hierarchical structure, the period from the 1870s to the First World War saw the first wave of globalization, on the back of technological breakthroughs in coal, steam, iron, and steel, transnational railways, and transcontinental shipbuilding, when the US and Germany emerged to challenge Great Britain. The post-Second World War decades up to around 1980 saw the second wave, led by the US. It was anchored in a new economic structure in the core countries, spanning the 'mass production revolution' and the 'consumer society', based on universal electricity, cheap oil, cheap suburban housing, plastics and the automobile, and supported by state institutions which recycled taxes back to businesses and various parts of the household income distribution via the welfare state, public employment, and public (including military) procurement, and supported by labour unions which obtained wage increases in line with productivity and expanded non-work time for consumption. Capitalists too supported the compromise and its tax implications ('positive sum game') because the national market was their guaranteed demand space, so they saw wages as a source of demand as well as a cost. Each capitalist still had an incentive to screw down on wages, but capitalists had a collective interest in paying high enough wages to create sufficient demand for their products. On the other hand, the new economic structure depended on access to low cost energy, materials and manufactured goods in developing countries – depended on core-periphery inequalities (Carlota Perez, personal communication).

Both first and second waves constituted 'shallow integration' between national economies, as compared with the 'deep integration' to come. They were 'trade globalization' with relatively immobile production. Manufacturing companies stayed in one country and produced mostly finished goods for international markets. The second differed from the first in that a growing share of international trade was 'intra-industry' (German cars to France and French cars to Germany) (see Chapter 7).

Financial globalization began in the second wave. One milestone was the abandonment, at the start of the 1970s, of the fixed exchange-rate regime in place since the Bretton Woods agreements in the mid 1940s. Floating currencies transferred currency risk to the private sector and stimulated the development of currency and derivative markets. A second milestone was the oil price hike by the Organization of Petroleum Exporting Countries (OPEC) in 1973. This resulted in large trade deficits in oil-importing countries, including the US, which gave another boost to the international market for US dollars (in which oil transactions were denominated) and for cross-border lending, especially to Latin America, whose sovereign debt first skyrocketed and then tripped the continent into two 'lost decades'.

The third globalization wave, 'production globalization', started around 1980 and lasted till around 2000, again led by the US, on the back of breakthroughs in information technologies (notably the microprocessor launched by Intel in 1971). These innovations enabled Western multinationals to outsource manufacturing and services, so as to use cheap labour or to be nearer final markets (as joint ventures, 'original equipment manufacturers', or arm's-length suppliers). The third wave was intensified by the end of the Cold War and the collapse of the socialist economic system, which merged two separate labour forces and investment pools into one; and at the same time, India became more open to the capitalist world economy than before. Within a short space of time, the world labour supply (workers producing for international markets) roughly doubled. Multinationals became much less dependent on demand from the population of their home countries. The post-war class compromise eroded as western capitalists saw wages only as a cost, demand coming from elsewhere, and as they embraced the norms of 'maximum tax avoidance' and 'winner-take-all' remuneration. The labour share of returns from production fell, the capital share went up, inequality rose in most countries, Production globalization, and 'deep integration', were enthusiastically promoted by the western-dominated international development organizations, including the World Bank and the IMF, under the banner of the Washington Consensus policy agenda for developing countries.

Since around 2000 we have been in the fourth wave, really an intensification and narrowing of the third: 'China-centric production globalization', when Western companies looked to China as the favoured production site for a wide range of manufactured goods. China's ascent marginalized manufacturing in other developing countries like Mexico and Brazil, and generated regional production chains linking subcontracting firms in other parts of East Asia and producers of high value-added components in Japan, North America and Europe, with assembly firms in China making final products for Western markets. By the 2000s Apple, Dell, and many other US tech companies had roughly one employee in America for ten people producing their products in China. Production globalization went with further trade liberalization; average world tariff rates fell to about 6 per cent in 2010 from as high as 40 per cent in the early 1990s. We may recently have entered a fifth wave. With world trade growing at its slowest since the doldrums of the 1970s, individuals and companies are sending some 20 times more data across borders in 2016 than in 2008, including data for 3D printing at the use site of components which would earlier have been shipped in.

Meanwhile financial globalization has been proceeding, intertwined like a double helix with waves of production globalization. It shows itself in both surging volume of cross-border financial transactions and institutional and legal liberalization of national financial systems and cross-border capital movements. The world of producers and consumers becomes the world of creditors and debtors. Giant banks grow at the intersection of credit-creation, saving, and investment, able to extract fast rising returns from the productive economy at every turn. The realm of finance dominates the realm of the 'real economy'—the ratio of global financial transactions to global GDP jumped from 14 in 1997 to almost 70 by 2012. And more than just size, finance now saps industrial capitalism with the prospect of easier profits from financial operations and real estate than from production. The US, with the world's main international currency, biggest capital markets, and population fluent in English (the language of international finance), dominates the financial realm even more than it dominates the GDP realm, which will probably help to sustain its pre-eminent rank among states for decades to come.

As both cause and effect, developed and many developing country governments began to rely less on politically unpopular taxation and more on politically more innocuous borrowing to finance their activities, transitioning from 'taxation states' to 'debt states' (Streeck 2013). They competed to cut taxes and privatize public assets so as to attract foreign capital. Their rising dependence on borrowing, plus high cross-border mobility of finance (hence low cost of 'exit' from any jurisdiction), boosted the *structural* power of finance. The international balance of power shifted in favour of international finance and creditor states (though not away from the biggest debtor state of all, the US). National distributions of power in developed and many developing countries shifted from representatives of domestically oriented groups towards representatives of groups whose interests and ideology align with international finance. Wealthy households and giant pension and insurance funds demanded new types of financial instruments in which to store and multiply their rising share of national wealth. Western financial firms looked to developing countries for investment opportunities, and rebranded some of them 'emerging market economies' (EMEs), which sounds more promising than 'developing countries'.

Globalization policy norms acquired a halo of 'success'. 'Reform' came to mean exclusively changes in a free market direction. Reform of a trade regime meant less protection, not making protection work better. Reform of corporate governance meant increasing transparency so that investors can better evaluate the buying and selling of shares, not giving voice to employees. Reform of public enterprises meant privatizing. Reform of macro policies meant making them more friendly to ratings agencies and holders of government debt. Reform of public services meant outsourcing of government responsibilities and making labour contracts 'flexible', tipping power more firmly to employers. On the ground, policy barriers to trade and foreign investment fell away as part of a wider move away from manipulating relative prices. For example, the world average ratio of tariff revenue to GDP fell from about 27 per cent in 1980 to 10 per cent in 2000.

On the other hand, government expenditure as a share of GDP has remained fairly constant, both in developed and developing countries, a disappointment in neo-liberal eyes. One reason is that globalization and its associated technologies have driven a sharp rise in the relative size of the 'precariat' in Western economies and Japan—people engaged in part-time work who want full-time work, people employed for 'tasks' rather than careers, people without employer-provided benefits beyond wages, people employed on 'zero-hour' contracts who are obliged to be at their employer's disposal 24/7 but are guaranteed only, normally, 15 paid hours a week. They are the 'throwaway citizens' (though a small minority flourish as contractors and entrepreneurs on their own). Even as the precariat grows, most Western governments are trying to cut back on social protection and cede more of it to the charity or for-profit sectors, but are somewhat constrained by democratic politics and the need to offset the tendency to depressed private demand. All this underlines the point made by Joseph Schumpeter (1883–1950) that capitalism generally, technological revolutions more specifically, make for 'creative destruction' (sometimes more creative, sometimes more destructive), not just in firms and industries but also in organizational templates and world views, from which comes the ascendancy of those embracing the new 'common sense' and marginalization of those attached to the old common sense (think Detroit to Silicon Valley).

Globalization as key to improved national performance?

The proposition that trade liberalization promotes higher welfare at home and abroad appears to be supported by many cross-country studies which find that more liberal trade and investment policies generate economic dynamism. But these studies often turn out to be less than convincing. Identifying causality is problematic. Finding that faster growth of trade quantities is associated with improved economic performance does not support the conclusion that *trade policy liberalization* is key to faster trade growth. Trade volumes are outcomes of many factors, including an economy's overall growth. They are not something that government controls directly. Studies of the relationship between trade policy (indicated by tariffs and non-tariff barriers) and subsequent economic growth find no strong relationship (Wade 2010, 2013). The only robust relationship is that governments lower trade barriers as their economies become richer. To infer that they became richer because of lowered trade barriers is like inferring that, since rich people tend to live in nice houses, you can become rich by living in a nice house.

With few exceptions, today's rich countries had high tariffs during their rapid growth phase (including the US) and then lowered trade barriers as their domestic industries became competitive. Japan through the 1950s to the 1970s and Korea and Taiwan through the 1960s to the 1980s, had fast growth of trade together with very managed trade regimes. They managed trade so as to intensify the cycle of investment-profits- reinvestment in the domestic economy, which generated fast growth, which generated fast growth of demand for raw materials and capital goods, which prompted strategic trade liberalization (Chang and Grabel 2014; Wade 2004). More recently, China and India began to open their own markets *after* building up entrepreneurship, industrial capacity, internal integration, and fast growth behind high barriers. In 1990, China had the fifth-highest average tariffs in the world, behind Bangladesh, India, Pakistan, and Kenya, at the same time as its exports were surging. India continues to have high trade restrictions.

In Latin America, Chile adopted free market policies under Pinochet in the 1970s and enjoyed substantial economic success. Economists urged other Latin American countries to follow Chile's lead, and many did. Yet they have had poor economic performance. Something is amiss when the good pupils score the low marks (Mexico and many others in Latin America) and the bad pupils score the high marks (Japan, Taiwan, South Korea during their catch-up phase, and China).

The short answer to why East Asia has shown much better economic performance is that gross capital formation has run at a much higher share of GDP than elsewhere (see Table 12.1).

Table 12.1 Gross capital formation/GDP, selected entities

	1970	1990	2012	1980–2014
China	33	36	47	40
East Asia & Pacific minus China	23	32	30	28
LICs & MICs minus East Asia	22	22	25	23

Notes: LICs = low-income countries, MICs = middle-income countries.

Source: World Development Indicators (22/12/2015).

We can be fairly sure that strong causality runs from investment rates to economic growth (and some causality in the other direction.) But the larger point of this section is that our knowledge of the causes of growth in developing and developed countries is not robust. Tatu Westling (2011) estimates an augmented Solow model utilizing the Mankiw–Romer–Weil 121-country dataset and finds that human penis size is statistically highly significant in explaining GDP per capita levels in 1985 and even GDP per capita growth from 1960 to 1985. More seriously, Enrique Moral-Benito (2012: 21) finds that, taking account of endogeneity and model uncertainty, ‘There is no variable unambiguously related to economic growth. Hence, economic growth does not appear to be robustly related to the determinants proposed in the literature so far.’

An independent panel of economists tasked with evaluating World Bank research on development policies said of the big cross-country studies, which allegedly show that free market policies constitute the ideal development model:

> We see a serious failure in the checks and balances within the system that has led the Bank to repeatedly trumpet these early empirical results without recognizing their fragile and tentative nature … once the evidence is chosen selectively without supporting argument, and empirical skepticism selectively suspended, the credibility and utility of the Bank’s research is threatened.
>
> (Banerjee *et al.* 2006: 53–6)

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KEY POINTS

- Sustained increase in average income (economic growth) has been the global norm since the 1950s, but on a scale of millennia it is exceptional. Earlier populations were caught in the Malthusian trap.
- The dominant global economic policy paradigm since the 1980s—neo-liberal globalization—presumes that development is easy, provided governments do not grossly distort market signals, do not undermine incentives to work hard by providing tax-financed benefits, and do provide certain public goods, including enforcement of laws on competition and property rights. This ‘exchange-focused’ (not ‘production-focused’) proposition has underpinned the policy prescriptions of Western-dominated international organizations like the World Bank, IMF, and OECD.

- Neo-liberal globalization champions claim solid empirical support for their development theory and for the policy mandates of Western-based international organizations. When examined more closely the evidence looks ambiguous.

- One piece of counter evidence is the small number of non-Western countries that have become developed in the two centuries since the Industrial Revolution. The small number is consistent with the argument that the Washington Consensus policy agenda helps to perpetuate the core-periphery structure of the world economy, by making it difficult for developing countries to keep raising the proportion of economic activities in dynamic, increasing returns sectors.
- Globalization seen as the rising trend of cross-border exchange has gone through several phases. We are now in (and may be nearing the end of) the phase of 'China-centric production globalization', combined with a high level of financial globalization (as seen in the ratio of global financial transactions to global GDP of around 70).

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World income and population distribution

In the end our interest is in the outcomes of the world economy for human well-being (and for the whole biosphere), which the globalization trends in quantities, prices, institutions, and rules help to determine. We can measure these outcomes in terms of income, consumption, health, education, accommodation, water, and sanitation, decent working conditions, social inclusion or exclusion, happiness, and more. Here we stick to income or consumption.

Today's world income distribution can be shown as the share of the world's population living in countries across the range of average incomes. See Figure 12.1, which measures income at **purchasing power parity (PPP)** exchange rates rather than market exchange rates (see Box 12.1). Notice the 'twin peaks' and the 'missing middle'. One peak contains 70 per cent of the world's population living in countries whose GDP per capita is below about PPP$13,000. (The present tense here refers to 2013.) The other peak is the 15 per cent who live in countries with GDP per capita above PPP$30,000—the rich world. Only a small percentage live in countries with average incomes between PPP$20,000 and PPP$30,000. Talk of the 'middle-income' countries can misleadingly suggest that they are ‘midway’ between the low- and the high-income countries. In fact, the middle-income countries fall towards the low end. And the distribution of world population by the income of individuals is much more skewed towards the tail than the distribution by countries’ average income.

<Insert Figure 12.1>

Figure 12.1 International income distribution: the distribution of people according to the GDP per capita of the country in which they live (year 2013)

Note: GDP shown in 2005 international dollars.
Source: Milanovic (2016).

Using PPP incomes makes the world distribution look a lot less unequal than FX (market exchange rate) incomes. Economists tend to insist that the question, ‘What is happening to world income distribution?’ should be answered only with PPP incomes. Sociologists who work on these issues tend to use FX incomes. National governments, too, tend to be more interested in FX incomes than PPP incomes.

Economists are right to emphasize that FX-based income comparisons suffer from all the ways in which official exchange rates do not reflect the ‘real’ economy (see Box 12.1). In principle, PPP adjustments are better for comparing conditions of living, or material well-being, between countries.

But these are *not* the only questions for which we may be interested in income and its distribution. We may *also* be interested in income distribution as a proxy for the relative purchasing power of residents of different countries over goods and services produced in *other* countries. If we are interested in any of the questions about the impacts of one state, economy, or region on others—including the capacity of developing countries to import, repay their debts, participate in international organizations, and the incentive for people in one country to migrate to another country—we should use incomes compared at market exchange rates lagged over a period of a year or more. FX incomes are a better proxy for relative power and influence, a subject of more interest to sociologists and political scientists than economists.

For example, one reason why many poor small countries are hardly represented in multilateral negotiations that concern them directly is that they cannot afford the cost of hotels, offices, salaries, and consultants in places like Washington, DC, New York, and Geneva, which they must pay for not in PPP dollars but in hard currency bought with their own currency at market exchange rates. Similarly, this is why they cannot afford to pay the foreign exchange costs of living up to many of their international commitments—hiring foreign experts to help them exercise control over their banking sectors so that they can implement their part of the anti-money-laundering regime, for example. International organizations like the World Bank and the IMF allocate voting shares in large part on the basis of relative GDPs, calculated by a formula which gives more weight to GDPs at market exchange rates than at PPP exchange rates—because by market exchange rates the developed countries are relatively much richer (and get higher voting shares) than they are by PPP exchange rates (Vestergaard and Wade 2013).

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BOX 12.1

Market Exchange Rates (FX) and Purchasing Power Parity (PPP)

Comparisons of real income or material well-being across countries are plagued with difficulties, especially when the countries have very different prices and economic structures. They need a common measuring rod. But measures of income in different countries—expressed in a common denominator such as the US dollar and determined on the basis of market exchange rates—do not accurately reflect relative purchasing power over goods and services. Exchange rates vary daily, and can be driven far from any concept of equilibrium by carry-trade capital flows, while the underlying structure of production, income, and expenditure remains fairly stable.

Exchange rate conversions also do not take account of the fact that the price levels between rich and poor countries are very different. In particular, the prices of many not internationally traded services (for example, haircuts), also many food staples, are much cheaper in developing countries than in developed countries, so the relative purchasing power of a unit of their domestic currency is bigger than indicated by converting the currency into the US dollar at the market exchange rate. This is what lies behind the experience of rich people in India who feel poorer when they visit the United States (their purchasing power over goods and services in the US is less than over the same bundle at home), and poor people in the US who feel richer when they visit India. The market exchange rate is around 50 rupees for 1 dollar. The latest estimate is that around 20 rupees buys about the same amount of a 'typical consumption bundle' in India as $1 in the US. 'Purchasing power parity' (PPP) refers to an adjustment of the market exchange rate so as to give the amount of local currency needed to buy as much as one unit of the currency of the numeraire country, usually the US, in a benchmark year. In the India–US example, today's PPP exchange rate is 20:1, not 50:1, which translates into the statement that India's 'price level' is about 40 per cent of the US price level (20/50). [EDITOR: NEXT SENTENCE RUNS ON HERE]n principle, the PPP adjustment allows real income comparisons, not only between the US and India today, but also—with heroic assumptions—between the US and India before the Industrial Revolution.

[EDITOR: THIS IS NOT A BULLET POINT, IT IS A NORMAL PARA]Because the price of many services and non-traded goods is lower in poor countries, the main effect of PPP adjustments to national income is to raise the income and consumption of poor countries relative to richer ones. For example, Turkey's average income at market exchange rates (FX dollars) was 10 per cent of the EU-15's in the early 2000s and 24 per cent in PPP dollars. Sub-Saharan Africa's was 2 per cent in FX dollars and 7 per cent in PPP dollars. The development problem looks less daunting when expressed in PPP dollars. The PPP adjustment makes much less difference to FX comparisons between developed countries, whose price levels and economic structures tend to be fairly similar.

[NEW PARA] Among the cognoscenti PPP is a hotly contested subject, but few who use the numbers know the controversies and sources of error.

[NEW PARA]Since there is no market for currencies at PPP exchange rates, the PPP estimates have to be based on the collection of hundreds of thousands of prices worldwide, followed by averaging the prices for each country in order to get relative price levels. There is a trade-off between two aims: collect prices of items that are internationally comparable (eg Brooks Brothers shirt), and items representative of what most people actually buy (eg shirt of a labourer). When items are not traded internationally the 'solution' is detailed product specification (the Africa price list includes, under the generic category of 'fish', 'smoked bonga, in simple wrapping, open product presentation, a piece of approximately 200 grams'); which makes the surveys very expensive. And what about 'housing units' (eg the price of slum accommodation) and 'education'?

The price and income or consumption data are collected locally in line with a common set of procedures, but the core calculations have to be done centrally, not by national statistical agencies. The main source of the data on country prices is the International Comparison Program (ICP), launched in 1968 at the initiative of the UN Statistics Division and the Department of Economics at the University of Pennsylvania, financed by the World Bank and the Ford Foundation; hence the name of the series, the Penn World Tables (PWT). In 1975, Eurostat began to produce PPPs for EU countries as a way to determine more fairly financial contributions to the organization and to settle country disbursements. In 1980, the OECD expanded the work to cover all OECD countries, plus countries of Eastern and Central Europe. Around 1980, the UN Statistics Division took over the task of compiling global estimates and the work of coordinating the collection of international price data. But in the UN the price collection effort soon languished. The World Bank, which had provided technical and financial support to the UN during this time, took over responsibility for coordinating the global exercise in the early 1990s. In the mid 1990s, the World Bank (and the OECD) started to issue their own PPP numbers, using another method of aggregation (EKS) from the one used by PWT (Geary–Khamis). There are now two main series of global PPP data—PWT and the World Bank's. The series show some differences between countries' PPP-adjusted GDPs; and often more substantial differences in estimates of GDP components, such as private consumption, government consumption, and the like. The PWT numbers are more frequently used by academics than the World Bank's, in part because the PWT data provide more details on more countries for longer periods.

Dowrick and Akmal (2005) show that the PWT contains a systematic bias towards underestimating world income inequality, due to its use of a 'rich country' price structure to revalue GDP in poor countries (arising from the use of the Geary–Khamis formula that gives greater weight to those prices involved in the larger value of transactions). They urge that the term 'purchasing power parity' be used only in a generic way, with additional specification of whether the numbers come from the PWT or sources based on a different method of making the PPP adjustment.

In addition to the inherently difficult problems of item selection and index numbers, there are other daunting data problems. The price data are spotty in geographic and temporal coverage. The government of China did not allow a price survey in line with the ICP's criteria until 2005 (and then only in 11 cities); the government of India declined to carry one out between 1978 and 2005. For these and other important countries, the PPP numbers were obtained mostly by imputation from other countries or from updating old data. Even for sampled countries, the numbers are collected intermittently, not continuously, making statements of trends in PPP incomes across time problematic. Most of the results of the 1993–5 round of price surveys had still not been made available by the mid 2000s.

The spotty and out-of-date quality of the data reflects the institutional weakness of the ICP, which for much of its existence has hovered on the brink of collapse. While housed in the UN Statistics Division it received little support from senior officials and UN member states, on the grounds that it entailed a big additional burden on participating statistical bureaus and provided data of interest mainly to academics, not policymakers. Since the early 1990s, when the World Bank took it in, it has been carried forward by a few World Bank officials and consultants, who are plagued by shortages of funding and none too keen to let even senior Bank managers see their data computations (Korzeniewicz *et al.* 2004). They were not able to supervise seriously countries' data collection for the 1993–5 round, and the resulting non-comparability is part of the reason why they delayed releasing data for many years.

The 2005 ICP price survey was more comprehensive than the earlier ones (146 countries participated), and used more strictly specified goods and services so as to ensure international comparability. The results, published in 2008, were a bombshell: they entailed huge revisions of developing countries' GDPs (mostly downwards) and poverty headcounts (mostly upwards, raising the global headcount of those in extreme poverty by half a billion). For example, the World Bank estimated China's PPP GDP per capita in 2005 as $6,760, using the pre-2005 PPP exchange rate; it estimated the figure *for the same year* as $4,090, 40 per cent down, using the PPP exchange rate derived from the 2005 price survey. India's fell from $3,450 to $2,220. (At market exchange rates, the figures for China and India in 2005 are $1,720 and $800.) As Angus Deaton and Alan Heston remark, 'it is hard not to speculate about which previously established econometric results survive the incorporation of these revisions' (Deaton and Heston 2009). They also stress the wide margins of uncertainty around PPP estimates: in the case of the US–China PPP exchange rate, a margin of around 25 per cent on either side.

In 2014 came the results of the 2011 IPC calculations of PPP exchange rates. Another bombshell, but mostly in the opposite direction: most developing countries got large boosts to their PPP GDPs for 2010 compared to the extrapolations for 2010 from the IPC 2005 PPP exchange rates (so China greatly reduced its GDP gap with the US and India got a bigger GDP than Japan). Global inequality between countries now looks to be a lot lower than extrapolation from the 2005 PPP exchange rates would suggest. And one estimate suggests that the 2011 PPPs cut the global poverty rate in 2011 *almost by half*, compared to the rate extrapolated for 2011 using the 2005 PPPs.

After a detailed technical examination of why the 2011 results are so different from what was expected, Deaton and Bettina Aten conclude, 'our findings suggest that the ICP 2011 estimates are the most accurate we have, and provide no grounds for doubting them … The revisions that need to be undertaken are to long-standing previous estimates, a process that is likely to be less than straightforward' (2015). On the other hand, Martin Ravallion, who has inside knowledge from being in charge of the World Bank's poverty statistics for many years, finds plenty of grounds for doubting that the 2011 results are superior to the 2005 ones (and extrapolations from 2005 results). He considers that 'the 2011 ICP remains something of a mystery', and concludes more generally that 'the results of this study point to the limitations of PPPs for international comparisons' (2014: 18–19).

The bottom line is that confidence in trends in PPP incomes, inequality, and poverty should be limited by the certainty of wide margins of error in comparisons between rich and poorer countries, however uncomfortable that may be for those who feed them into the econometrics compactor. Good sources for understanding PPPs are Deaton (2010, 2013) and Deaton and Aten (2015).

<End Feature>

Figure 12.2 shows the changes in the distribution of world population by average household income between 1988 and 2011, based on household surveys and 2005 PPPs. The whole distribution shifts to the right, reflecting global economic growth. The shift is pronounced at the poorer end, reflecting a steep fall in the share of world population living on less than, say, $400 a year. The other pronounced shift is the large increase in the share of world population between $1,000 and $10,000 per year, mostly living in China and India. This is often referred to as the growth of the global 'middle class', though no sociologist would describe an income category with fairly arbitrary thresholds as a 'class'. Notice too that the distribution moves from bimodal to unimodal.

<Insert Figure 12.2>

Figure 12.2 Distribution of world population and real household per capital income, based on household surveys, 1988 and 2011, 2005 PPPs

Source: Milanovic (2016).

We can now look at some of the biggest countries—biggest by population or by share of world GDP . See Table 12.2. The disproportion between population shares and GDP shares is striking, and raises again the Adam Smith question of how the relatively small population of the developed countries got to have such a big slice of world GDP. Other striking points include China's gain in GDP share to make it by 2010 the second biggest economy; India's small share relative to its population and its small gain in GDP share over the past 30 years; and the US's smallish fall in GDP share over the same period, leaving it still the biggest economy by far at market exchange rates.

<Insert Table 12.2>

Table 12.2 Major economies, share of world population and GDP (%)

	Population 2010	GDP 1980 (FX)	GDP 1980 (PPP)	GDP 2010 (FX)	GDP 2010 (PPP)
USA	4.5	25.7	25.0	22.8	18.2
China	19.3	1.7	6.3	9.2	15.3
Japan	1.8	9.7	8.7	8.4	5.4
Germany	1.2	8.5	6.0	5.2	3.9
France	0.9	6.3	4.9	4.0	2.8
UK	0.9	5.1	4.2	3.7	2.8
Brazil	2.9	2.1	2.6	3.4	2.6
India	17.8	1.7	3.2	2.6	6.1
Russia	2.1	—	—	2.3	3.4
South Africa	0.7	0.7	1.1	0.6	0.7

Source: WDI, Penn World Tables, 8.1. PPP 2005 US$.

Growth and geographical distribution

The globalization argument implies that the period since 1980 should have experienced an increase in global economic growth, thanks to the global policy shift towards market-friendly policies and the rise in economic and financial integration between countries. With more integration, ideas, institutions, and goods and services speed faster from societies at the top to those lower down.

In fact, the growth rate of world GDP per capita fell by a third between 1955–80 and 1980–2007, from an average of about 2.2 per cent to 1.7 per cent. Indeed, a majority of the world's countries (56 per cent) experienced negative growth of GDP per person in 1980–2000; though not, of course, a majority of the world's population.

The rich world (24 countries of the 'old' OECD) has slowed almost every decade since the 1960s: from 4 per cent in 1960s, 2.5 per cent in 1970s, 2.2 per cent in the 1980s and 1990s, and less than 1 per cent in the 2000s to 2010. The fall since 1990 is especially telling, because, by this time, the 1980s policies of squeezing inflation, deregulating, privatizing, liberalizing trade and capital movements had worked themselves through into macroeconomic stabilization and free markets; yet the promised upturn in economic growth did not appear. The slowdown since the 1990s partly reflects demographic change, as the post-war baby boomers—the largest and wealthiest generation in history—moved beyond raising children and joined the low-spending 'new old' generation.

World output in 2003 to 2007 grew much faster than during the previous quarter century, at close to 4 per cent a year. Commentators celebrated the 'rise of the South', 'global rebalancing', and the West's 'Great Moderation', the latter meaning modest growth rates with low inflation and high employment. The Crash of 2008 caused a contraction of global output in 2009 of minus 2 per cent, recovering to plus 2.4 per cent in 2012–14. Even the most Pollyannaish pundits before 2008 now recognize that the fast growth and high corporate profits in the earlier part of the decade were based on unsustainable debt on the balance sheets of households and/or governments, especially in the US, Britain, and southern Europe. The Roman playwright, Plautus, got the mechanism 2,300 years ago, when he had one of his characters declare, 'I am a rich man, as long as I do not repay my creditors'. The high global growth rates of 2003 to 2007 are unlikely to be regained any time soon, unless again based on debt—or a baby boom.

The world growth trend hides large variations between regions and classes. Sub-Saharan Africa, with almost 1 billion people, had an average income in the mid 2000s barely above the level of 1980, despite most states having implemented Washington–Brussels Consensus **structural adjustment programmes** for many years. Latin America, with 550 million people, experienced much the same stagnation at a higher income level. The countries of the former Soviet Union, after more than 20 years of transition to capitalism, remain at about the same average income as when the transition started. On the other hand, the North (western Europe and North America) grew faster than these other regions until the early 2000s. China from the 1980s and India from the 1990s grew fast from a very low base, slowing after 2012. India's fast growth reduced the ratio of the average income of the US over South Asia's (constant 2005 $) from 87 in 1980 to 41 in 2014 – the fall is large but the gap remains huge. The US to Latin America ratio went from 6 to 7.6 in the same period.

The fact is that, after decades of self-conscious development and market liberalization, the average income for the South is still only around 15 per cent of that of the North (constant 2005 US$). And growth in the South is more erratic than in a typical developed country, with periods of relatively fast growth followed by deeper and longer recessions (Reddy and Minoiu 2009; Pritchett and Summers, 2014). This volatility helps to explain why few developing countries have sustained growth at 6 per cent a year or more for more than 15 years. China holds the world record for number of years of continuous growth at 6 per cent or more: around 40 years (by 2015), followed by Taiwan (32 years) and South Korea (29 years). Brazil languished in the 'lower middle income' range for the last 53 years between 1950 and 2010.

Taking all countries, the spread of average incomes did not fall between 1960 and 2010; in fact, the ratio of the average income of the richest 10 countries over that of the poorest 10 increased from around 33 in 1960 to almost 120 in 2010 (1990 international dollars), contrary to what a simple version of neo-liberalism might lead one to expect. On the other hand, weighting countries by population, we can say that a large proportion of the world's developing country population experienced fast growth in the two decades up to 2010, thanks to the 38 per cent of the world's population in China and India.

Of the increase in world income or consumption over the 1990s and 2000s, a majority accrued to those already in the top 10 per cent of world income distribution. The absolute income gains of those at the top end in Figure 12.2—four-fifths of whom live in the high-income countries—are much larger than the absolute gains of the so-called 'middle class', most of whom live in China and India.

Evidence of this kind questions the idea of 'the (income) rise of the South'. 'The rise of the South' is mainly 'rise of the East', or, better, 'rise of Asia', and the latter is mainly 'rise of China', with India coming along some way behind. However, China and India now have big enough GDPs to shift the 'centre of gravity of the world economy' from mid North Atlantic in 1980, around the longitude of Iceland and the latitude of Austin, Texas, Tel Aviv, and Shanghai, eastwards and north to western Turkey (Quah 2011). The smallest circle of territory now containing a majority of the world's population is 3,300 km in radius centred in

Myanmar on China's western border (Quah 2015). If global organizations were governed by a 'one person one vote' rule, global power would move towards this circle.

Income inequality between countries

In the past decade trends in world income distribution have become a hot topic of debate in international economics and in sociology (hotter than world poverty). Disagreement about the trends should be no surprise, given the collage of economic performance by region. Different measures emphasize different parts of the collage.

Much of the debate is mathematical, far removed from people's experience of inequality, and focuses less on the 'facts' than on the measures. It turns out that the only valid short answer to the question, 'What is the trend of world income distribution?' is, 'It depends on which of several plausible measures and samples we choose'. Whereas we could get better data on the poor to the extent that the poverty headcount would command general agreement, there is no best measure of world income inequality. Different measures are useful for answering different questions.

The results vary according to which of three core measures of inequality we use: Concept 1: inter- or between-country, using average incomes (this could be called the UN General Assembly measure, one country one vote); Concept 2: inter-country, like Concept 1, but countries weighted by population; and Concept 3: global interpersonal, covering all the world's people as though the world was one country (Milanovic 2006).

Several other choices also affect the results. Incomes may be converted into a common numeraire using market exchange rates or PPP conversion factors. PPP numbers may be drawn from the PWT, or from the World Bank's World Development Indicators, or from Angus Maddison, or still other sources (see Box 12.1). Country sample and time period also matter.

The results also depend on the choice of statistic for calculating dispersion—an integral measure over the whole distribution (such as the **Gini coefficient** or the Theil Inequality Coefficient—see Box 12.2), or a ratio of top decile to bottom four deciles, or average income of a region relative to that of the North or the USA.

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BOX 12.2

The Gini Coefficient

How do we know whether one society is more unequal than another? We should measure the distribution of property (including financial assets), which is far more unequally distributed than income. But wealth distribution data are even worse than income distribution data (a sizable fraction of world financial wealth is hidden, at least 13 per cent), so the degree of inequality is normally measured with income or consumption. We should remember that to focus on income rather than property gravely underestimates the extent of inequality.

The workhorse measure of income inequality is the Gini coefficient, a number between zero and one that measures the degree of inequality in the distribution of income in a given society (named after an Italian statistician, Corrado Gini). The coefficient is zero for a society in which each member receives exactly the same income; it reaches its maximum (bounded from above by 1.0) for a society in which one member receives all the income and the rest nothing.

As normally defined the Gini says that inequality remains constant—growth remains as 'inclusive' as before—if all individuals (or countries by average income) experience the same *rate* of growth, and rises when upper incomes grow faster than lower incomes. So inequality remains constant if a two-person (or two-country) distribution x = (10, 40) becomes y = (20, 80). Yet the income gap has doubled from 30 to 60.

It is at least as plausible to say that inequality remains constant when all individuals (countries) experience the same *absolute* addition to their income; say from x = (10, 40) to y* = (20, 50). If upper income individuals (countries) experience bigger absolute additions, inequality *increases*, growth is less inclusive, which has political implications.

The normal Gini could be called the Relative Gini. The Gini based on absolute changes could be called the Absolute Gini—defined as the Relative Gini multiplied by the mean income. In the above illustration, the Relative Gini for both distributions is the same, at 0.3. But as mean income doubles from 25 to 50 in the transition from x to y, the Absolute Gini doubles, from 7.5 to 15.0. Growth is not 'inclusive'.

The Absolute Gini typically rises much more frequently and by much more than the Relative Gini, and its use could make 'income inequality' into a more salient political issue. The Relative Gini could be called a 'rightist' measure, and the Absolute Gini a 'leftist' measure (Kolm 1976*a*, 1976*b*).

Economists' long-standing nonchalance about income inequality is reflected in the rarity of the Absolute Gini. Its unpopularity also reflects the fact that cross-country comparisons of the Absolute Gini are more complicated than for the Relative Gini, because the former depends on the mean of each distribution. This requires that we convert incomes into the same currency (e.g. to compare absolute inequality in India with that in the US we have to convert the two means and income distributions into either rupees or dollars). And to perform comparisons across time we also need to correct for inflation. The choice of appropriate exchange rates and price deflators becomes crucial for making reliable comparisons of absolute inequality. These inconveniences have often been held up as justification for sticking with relative measures of inequality. But as Kolm explains, 'these problems are exactly the same ones which are traditionally encountered in the comparisons of national or per capita incomes … and they can be given the same traditional solutions. Anyway, convenience could not be an alibi for endorsing injustice' (1976*a*: 419–20). The bottom line is—all these technical complexities aside—that students of inequality should not ignore trends in absolute income gaps when making inequality comparisons, as most of the literature does, including this text. For more information on measuring inequality, see the World Income Inequality Database page at http://www.wider.unu.edu/research/Database. Thanks to S. Subramanian, Madras Institute of Development Studies, for help on the Absolute Gini.

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Concept 1 inequality: distribution between unweighted countries

Concept 1 gives China the same weight as Uganda. It has the advantage that it requires little information about each country: just per capita GDP or GNP. Of course, we should not weight countries equally if interested in relative well-being of people. But we should weight them equally—treat each country as a laboratory test observation—if interested in convergence or divergence of countries rather than people. We might want to test the effects of different government policies on growth—to see whether (unweighted) countries with more open trade regimes grow faster than those with less open ones, for example.

Whatever our motivating question, the trend of Concept 1 inequality is clear (using PPP incomes): the Gini for unweighted inter-country income distribution held fairly steady from 1960 to 1980, increased steeply from 1980 to 2000, and fell from 2000 to 2007, leaving a large net increase in inequality since 1980 (see Figure

12.3). Is the increase in inequality due only to the collapse of Africa? No. With Africa excluded, the Gini fell from the mid 1960s to the early 1980s, and then increased steeply.

Concept 2 inequality: distribution between weighted countries

Inter-country income inequality, using PPP/PWT dollars, population weights, and the Gini coefficient, was fairly stable from 1960 to the early 1990s, and then fell right up to 2007. This is the good news: it suggests that the centuries-old trend to income divergence between countries has finally gone into reverse.

But here the global Gini conceals as much as it reveals. If we take out just one case, China, the population-weighted inter-country Gini *rises* after 1980 up to 2000, when it, too, begins to turn down; so it goes mostly in the *opposite* direction to the trend with China included. So even with the combination of measures most favourable to the neo-liberal case, falling income inequality between countries is a function of China's fast growth since the early 1980s, not a *widespread* trend of the world economy as the happy result of widespread globalization.

<Insert Figure 12.3>

Figure 12.3 Trends in the three concepts of international inequality, 1950–2007

Note: Results incorporate PPP data from the 2005 round of the International Comparison Project.

Source: Milanovic (2009). Reprinted with the permission of the © World Bank.

The other bad news is that the result also depends on the use of the Penn World Tables method of calculating PPPs. As noted (see Box 12.1), Dowrick and Akmal (2005) show that the PWT method systematically understates the magnitude of inequality and overstates its fall. The bias comes through the use of an average international price structure for revaluing countries' GDPs which results from weighting countries' observed price structures by the relative *global* expenditure at those prices; which means that the average international price structure reflects the price structures of *rich* countries—and so values services (e.g. domestic services, haircuts) much more highly in poor countries, inflating the purchasing power of poor countries' currencies. (This is known as the Geary–Khamis method of aggregation.) When this bias is removed (for example, by switching from Geary–Khamis to the Afriat method), Dowrick and Akmal find that 'true [sic] inequality was stable or increasing slightly … over the 1980s and 90s' (2005: 226). More exactly, three out of their four measures of inequality applied to Afriat-aggregated data show an increase, one shows constancy, *none shows decline*—even when China is included.

That switching from Geary–Khamis to Afriat PPPs reverses the trend towards falling inequality underlines the fragility of the conclusion that world income inequality fell since the 1980s or 1990s. Indeed, a further bias towards rich country prices—hence toward exaggerating poor countries' convergence with rich countries—comes from the self-selection of the countries which participate in the (statistically difficult) ICP. The participating countries tend to be the statistically more advanced, able to handle the complexities; which also tend to be the richer countries. China's and India's non-participation, noted earlier, is part of a wider selection bias.

In any case, this Concept 2 measure—average country incomes weighted by population—is interesting only as an approximation to income distribution among all the world's people or households, regardless of which country they live in. We would not be interested in measuring income inequality in the United States by calculating the average income for each state weighted by its population if we had data for all US households.

Concept 3 inequality: global interpersonal income distribution

Interpersonal or global income inequality could be measured by taking each population-weighted country's average GDP, weighting it by internal income distribution, and calculating the combined between-country and within-country inequality across the whole sample.

As noted, population-weighted between-country distribution became more equal after the early 1990s with China included and more unequal with China excluded. Within-country distributions have generally become more unequal. A large majority of the world's population lives in countries where income disparities are higher than they were a generation ago.

Trends in industrial wage inequality within countries confirm the broad trend. Wage data has the advantage over income data that pay is a much less ambiguous variable. Also, it has been collected systematically by the United Nations since the early 1960s, and gives many more observation points for each country than any income data set. It is a useful way to get at the impacts of changes in trade policy and trade flows, or of manufacturing innovation, and the like. The disadvantage of pay data is that it treats only a small part of the economy of many developing countries, and provides only a proxy for incomes and expenditure.

This is not as limiting as it may seem, because what is happening to pay rates in formal-sector activity reflects larger trends, including income differences between countries and income differences within countries (since the pay of unskilled, entry-port jobs in the formal sector is closely related to the opportunity cost of time in the informal or agricultural sectors).

Pay inequality within a large sample of rich and poor countries was stable from the early 1960s to the early 1970s, then declined till about 1980, then increased from 1980 to the early 2000s, after which it fell to 2008, generally not by much. The countries within continents tend to show closely correlated movements in pay dispersions, suggesting *macro* forces at work (which receive little recognition in studies of causes of inequality trends). James K. Galbraith and associates present analyses of pay dispersions at http://utip.gov.utexas.edu.

Countries tend to form high-income and low-income inequality clusters. Most developed countries are in the low-inequality cluster (Gini coefficients for disposable income in the range from 0.20 to 0.35, as of the mid 2000s), and most developing countries are in the high-inequality cluster (0.50 to 0.65). At the low end, Scandinavia's Gini for disposable income was around 0.23–25 in the mid 2000s (down from around 0.42 before taxes and transfers, indicating the redistributive power of the state). The UK's and US's Ginis before taxes and transfers were around 0.45 and 0.49 in the mid 2000s, and 0.33 and 0.38 for disposable income. Japan's Ginis (pre and post) were around 0.44 and 0.32.

China's Gini was around 0.48 in the mid 2000s (the figures for pre- and post-taxes and transfers are not much different). But the China Household Finance Survey, from Southwestern University of Finance and Economics, Chengdu, finds China's real Gini to be about 0.6, the higher figure reflecting determined effort by the surveyors to get information about richest households. So on the face of it China, ruled by the Chinese Community Party since 1949, has become one of the most unequal countries in the world. But one cannot compare the new figure for China with other countries, because a similarly determined effort in other countries—India and the US, for example—would also yield big increases in their Gini.

Changes in within-country distribution tend to be small relative to the two big Gini clusters, and membership of the clusters shows considerable stability through the second half of the twentieth century. Contrary to what one might expect from the Kuznets inverted U hypothesis (inequality rises in the early stages of development, flattens out, and then falls as rural–urban differentials fall and now better educated citizens demand redistribution), there has been little movement from the high-inequality to the low-inequality cluster as countries become richer. On the other hand, the US—with its history as a hybrid plantation-industrial-financial economy—has been rising out of the low-inequality cluster and by 2000 was well into the zone between the low-inequality and the high-inequality clusters (Korzeniewicz and Moran 2009). Rising income inequality in the US is reflected in the sharp rise in the ultimate inequality – how long you live. Low income middle age men in 1970 had average life expectancy five years less than same age high income men; by 2015 the gap had risen to almost 15 years.

Another way to get at global interpersonal income distribution is to aggregate up from thousands of surveys of household income and expenditure. Branko Milanovic used the resources of the World Bank to do this for five-yearly intervals from 1988. He found a substantial increase in interpersonal income inequality between 1988 and 1993, a smaller fall to 1998, and another increase to 2003, making a large increase in global inequality between 1988 and 2003, followed by a fall to 2008. Of course, this method has its problems. It undercounts free public services such as education, health, and infrastructure that add to welfare but are not counted in household consumption. And there are big problems of comparability between household surveys.

As for the results of the PPP revisions based on the 2005 price data, Milanovic calculates that, compared to estimates based on the earlier price data, they raise the Gini coefficient of global interpersonal income inequality – for the same recent year -- from about 0.65 to 0.70 (using only household surveys); a big increase.

The conclusion is that global interpersonal PPP income or consumption distribution (using the Gini coefficient) has probably *not* become significantly more equal since 1980, contrary to neo-liberal assertions. On the other hand, developing countries may have grown sufficiently faster than developed countries during 2003 to 2012 to reduce interpersonal income inequality in this period. The margins of uncertainty are large.

Polarization or relative gap measures

The Gini coefficient is a measure of dispersion across the whole of the distribution. It can mislead by obscuring what is happening to major components and by giving more weight to what is happening in the middle than at the extremes. Simple ‘gap’ or ‘polarization’ measures can compensate.

Most such measures show the income caravan to be lengthening. For example, with countries grouped into deciles by their PPP GDP per capita, the ratio between top and bottom deciles almost doubled during the 1960–2000 period, from 19 to 1 to 37 to 1 (Milanovic 2005: 53). Polarization would be even more dramatic if we took the remuneration of the top 1 per cent of the world's population over the median or the average of the bottom 10 per cent's.

Within countries, a simple measure is the share of disposable income accruing to the top 5 per cent. It increased in most OECD countries between the 1980s and 2010. For example, in the US the share of disposable income accruing to the top 5 per cent went from 15 per cent to 19 per cent; in the UK, from 13 per cent to 18 per cent; Australia, 14 per cent to 17 per cent; Germany, 13 per cent to 15 per cent, Sweden, 10 per cent to 13 per cent. The other side is compression of the disposable income share of the population living between 25 per cent and 75 per cent of the national median. For example, in the US, from 32 per cent to 27 per cent; in the UK, from 40 per cent to 33 per cent (Milanovic 2016: ch. IV). This is often described as the squeezing of the middle class, fuelling mass discontent and providing opportunities for populist and/or authoritarian political leaders (see also Palma 2009).

The absolute income gap

Standard measures of inequality refer to relative incomes, not absolute incomes. Box 12.2 set out some reasons why they can be misleading. To extend that discussion, take two countries: A, with a per capita income of $30,000 (e.g. US, Denmark); and, B, with a per capita income of $1,000 (Philippines, pre-war Syria). Their relative income is 30:1 and the absolute gap is $29,000. If A's per capita income increases by 1 per cent to $30,300 and B's also increases by 1 per cent to $1,010, the relative gap remains constant and so 'inequality' as normally defined remains constant; but the absolute gap widens from $29,000 to $29,290. If B jumped to 6 per cent growth while A continued at 1 per cent the absolute gap would widen until year 35 and B would not catch up until year 70. If B grew at 4 per cent and A grew at 2 per cent, the absolute gap would widen for 140 years and catch-up would take the best part of two centuries.

No one questions that world absolute income gaps have been increasing fast—as between, for example, the average income of the top 10 per cent of world income recipients (countries and individuals) and that of the bottom 10 per cent, between the top 10 per cent and the intermediate 60 per cent, and between average incomes in North America and Europe and those in all developing country regions. If, as some evidence suggests, people commonly think about inequality in absolute rather than relative terms—those at the lower end feel more resentful and more inclined to migrate as absolute gaps increase even as relative incomes become more equal—our answer to the question, ‘What is happening to income inequality?’ should not be blind to absolute gaps.

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KEY POINTS

- World life expectancy at birth rose from 47.7 years in 1950–5 to 66.4 years in 2000–5. To what extent the increase was caused by increased income is controversial.
- The average income for the South, with about 85 per cent of world population, is still around 15 per cent of that of the North (constant 2005 US$), after decades of proactive development (http://data.worldbank.org/indicator/NY.GDP.PCAP.KD).
- Incomes should be calculated at PPP-adjusted exchange rates when comparing relative welfare (with acknowledgement of large margins of uncertainty), and at lagged market exchange rates when comparing relative ability to participate in cross-border transactions (import, borrow, rent offices in New York and Geneva, hire consultants, and lawyers, etc.)
- The US, with 4.5 per cent of world population (2010), has 22.8 per cent of world FX GDP, by far the biggest share. China, with 19.3 per cent of world population, has 9.2 per cent of world FX GDP (2010), the second biggest share.
- The average income of the richest ten countries relative to that of the poorest ten soared from 33 in 1960 to almost 120 in 2010.
- From around 1980 to the early 2000s, in the post-Bretton Woods economic regime, there was a widespread growth slowdown as globalization intensified from trade globalization to production globalization, as compared with the previous two to three decades. For the OECD countries, output per capita grew more slowly in the period 1990–2010 than in previous decades back to 1960, despite macroeconomic stability and liberal markets.

- Growth rates since 1980 varied substantially between regions. African countries performed poorly; also, from a higher starting point, many Latin American and central and East European countries. In contrast, East Asia's growth rates were the highest in the world.
- A World Bank study found that of the 101 middle-income countries in 1960, only 13 had reached the high-income threshold by 2010. Evidence of this kind underlines the difficulties of economic development, and the reality of a 'middle-income' or 'middle-capabilities' or 'non-convergence' trap or "glass ceiling".
- The major determinant of income inequality on a world scale is the choice of measures. The income measure matters most: whether incomes are converted at market exchange rates or PPP exchange rates. The distribution measure is the second most important determinant: whether the Relative Gini, Absolute Gini, or polarization measures.
- Most measures of inequality of average country incomes suggest a significant increase between around 1980 and 2000. Global interpersonal income distribution, as measured by the Relative Gini, increased between 1988 and 2003. Both measures fell over the 2000s, probably for the first time since the Industrial Revolution.

Most of the absolute increase in world income or consumption between the early 1990s and today accrued to individuals at the upper end of world income distribution, the large majority of whom live in the high-income countries. Only a tiny proportion of the increase accrued to those at the lower end. This is the 'Matthew Effect' on a world scale. Matthew's Gospel says, 'For unto everyone that hath shall be given, and he shall have abundance.'

- The present absolute income gaps in the world economy are so large that they will go on increasing for another half-century at the least, even if developing countries grow significantly faster than developed countries. Many of the negative effects of rising inequality (operating through a sense of stress-deprivation-grievance, for example) probably hold when absolute gaps are widening, even when relative gaps are falling.
- Countries tend to fall into two clusters by internal income inequality: low- and middle-income countries in the high cluster, high-income countries in the low cluster. There is not much evidence of

developing countries crossing from the high to the low cluster, contrary to the expectations of the Kuznets inverted U theory of income distribution. The US is transitioning from low to high.

- Trends in income distribution between regions, classes, and individuals or households suggest that the period since 1980 might be called ‘the second age of (vertical) inequality’, the first one being the period for several decades before 1929.
- The trends in favour of high-income countries and people may have changed direction in the nearly decade-long period since the early 2000s when low- and middle-income countries grew much faster than high-income countries. But the growth acceleration in the South in 2003–12 was substantially fuelled by unsustainable credit growth in the US and parts of western Europe; and has turned into growth deceleration since 2012.

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Poverty

Poverty has attracted more attention from the ‘international community’ than inequality, as in the World Bank’s motto, ‘Our dream [now upgraded, under President Jim Kim, to ‘plan’] is a world free of poverty’, and the United Nation’s Millennium Development Goal number one, to halve, by 2015, the proportion of developing countries’ population living in 1990 on an income of less than the equivalent of US$1.25 per day. Acting to reduce poverty is sanctioned by all religions and boosts our sense of ‘doing good in the world’, while acting to reduce inequality inevitably raises questions about the appropriateness of the income of those who voice their concern, and sounds ominously ‘political’ to international organizations which claim to be ‘apolitical’.

The standard way to measure poverty is to use an income or consumption measure, and for the sake of simplicity we stick to this convention here. Counting the number of people living below an income poverty line gives us a measure of the incidence (not severity) of poverty, and we can measure trends in global poverty by summing the number of people living below a standard international poverty line and tracing the number across time. But we should keep in mind that poverty is about deprivation of basic capabilities, and deprivation is multidimensional, including income, hunger, disease, lack of shelter, lack of water and sanitation, and social exclusion. We should also keep in mind that to observe poverty only through numbers is to miss the tragedy of truncated lives, which would be your and my tragedy if we had the bad luck to be born into the lower deciles of countries where 85 per cent of the world's population lives.

The World Bank is the main source of the poverty numbers. To get the world extreme poverty headcount, the World Bank first defines an international extreme poverty line (IEPL) which (1) reflects the conditions of absolute poverty in the world's poorest economies, and (2) corresponds to the same real level of well-being in all countries. Hence it takes the national poverty lines of a set of very poor countries, uses PPP exchange rates to convert the lines into US dollars, calculates the average, and converts the average back into countries' currencies to get their IEPL in national currency. All countries' IEPLs should have the same notional purchasing power as the dollar line in the United States in the benchmark year; and probably differs from their own national poverty line.

In the Bank's first global poverty estimation (1991), this procedure yielded a conveniently understandable PPP$1 a day for the base year of 1985. Each subsequent round of ICP calculations of PPP exchange rates have required this figure to be updated. The 1993–5 round resulted in the line being raised to $1.08; the 2005 PPPs generated $1.25; and now the 2011 PPPs have generated $1.90. From household surveys, the Bank estimates the number of people in the country living on less than the IEPL in the base year. It sums up the country totals to get the world total of people living in extreme poverty. It then uses national consumer price indices to keep real purchasing power constant across time, and adjusts the IEPL for each country upwards with inflation. As well as the extreme poverty headcount (people living on less than PPP$1 a day, updated) the Bank also estimates the ordinary poverty headcount (people living on less than PPP$2 a day, updated). In 2008, the World Bank presented revised estimates of countries' GDPs and world poverty headcounts, based on the international price survey of 2005 . Table 12.3 summarizes the numbers before and after the revised estimates, with and without China. The size of the revisions suggests the frailty of the poverty numbers.

The numbers living in extreme poverty show a pronounced fall between 1981 and 2005, with both the pre-2005 PPP exchange rates and the ones based on the 2005 price survey . This is good news, indicating substantial progress in cutting the number of people living in extreme poverty. The bad news is that, according to the new estimates, hundreds of millions more people have been living in extreme poverty than earlier estimated, so the extreme poverty problem was and remains much worse than had been thought. As the World

Bank's 'poverty czars' summarize, 'While the new data suggest that the developing world is poorer than we thought, it has been no less successful in reducing the incidence of absolute poverty since the early 1980s' (Chen and Ravallion 2008: 33)

More bad news is that the fall in the number under $1.25 a day is due entirely to China. Take out China and the number in extreme poverty increased (though the proportion of the developing world population still fell from 40 per cent to 28 per cent). Still more bad news is the sheer number of people living on less than the scarcely generous PPP$2.50 a day, almost 3 billion by 2010, more than 40 per cent of the world's population. Moreover, the number of people living below this threshold increased substantially between 1981 and 2005, which implies a big bunching between $1.25 and $2.50 a day. People in this income band remain very vulnerable to shocks such as the steep rise in food and fuel prices after 2005, and the economic crisis of 2008.

Still more complications to our understanding of world poverty come from the radical differences between extrapolations forward from the IPC 2005 PPPs and the IPC 2011 ICP results (Box 12.1). The latter give the number of Indians living below the World Bank's extreme poverty line of $1.25 per day as about 300 million *less* than the figure extrapolated from the 2005 PPPs; and the number of extremely poor people in the world as *less than half* the figure estimated by extrapolation from 2005. As noted in Box 12.1, Martin Ravallion, who probably knows more about global poverty statistics than anyone else, considers the 2005 PPPs to be more reliable than the 2011 ones. We are left, again, with the feeling of being on quicksand.

<Insert Table 12.3>

Table 12.3 Key world poverty numbers

	1981		2002		2005	
	No. (bn)	**%**	**No. (bn)**	**%**	**No. (bn)**	**%**
Old estimate @ $1.08	1.5	41	1.1	20	0.9	17
New estimate @ $1.25	1.9	52	1.6	31	1.4	25
New estimate @ $2.50	2.7	75	3.3	62	3.1	57

	1981		2002		2005	
	No. (bn)	**%**	**No. (bn)**	**%**	**No. (bn)**	**%**
			Excluding China			
Old estimate @ $1.08	0.9	32	0.9	23	0.9	22
New estimate @ $1.25	1.1	40	1.2	31	1.2	28
New estimate @ $2.50	1.8	66	2.6	66	2.6	63

Note: Percentage refers to population of the developing world. 'Old' refers to PPP conversion using pre-2005 price data.
Sources: Chen and Ravallion (2008, 2010). See also © World Bank PovcalNet (http://iresearch.worldbank.org/PovcalNet/index.htm?1).

[NEW PARA]The geographical distribution of extreme poverty has changed. Of the total number of people in 1990 living on less than the PPP$1.25 line (1.8 billion), 48 per cent lived in East Asia and Pacific, 32 per cent in South Asia, and 16 per cent in sub-Saharan Africa. Of the total in 2005 (1.4 billion) the corresponding figures were 23 per cent, 43 per cent and 28 per cent. So world poverty became more ' Southasianized' and 'Africanized'. In terms of the share of total population living in extreme poverty, in 1990, sub-Saharan Africa had 58 per cent, East Asia and Pacific, 55 per cent, South Asia, 52 per cent. By 2005 the corresponding figures were 51 per cent, 17 per cent, and 40 per cent.

These numbers are based on the 2005 PPPs. Recall that the 2011 PPPs give a more upbeat picture for the same years, with a lower level of extreme poverty and a strong downward trend. But whichever source we use, we should not take the Bank's poverty numbers at face value.

Large margin of error

Several reasons suggest that the margin of error is significant. First, the poverty headcount is sensitive to the precise level of the international poverty lines. Figure 12.2 shows that the population–income curve is steep at low levels of income (including at the $1-a-day line), meaning that small shifts in the line make large changes in the number of people below it.

Second, the poverty headcount is sensitive to the reliability of household surveys. Some countries survey income, others, expenditure, others, consumption, and merging the results is not straightforward. The available surveys are of widely varying quality, different countries use different formats and the same country may change the format from one survey to another. For example, surveys may use different reporting periods. A study in India in the late 1990s found that switching from the standard 30-day reporting period (asking people their expenditure over the previous 30 days) to a seven-day period cut the number of poor by half, because the shorter recall period yielded more reported income or expenditure. But a later study found a much smaller effect.

Third, by far the two most important countries for the overall trend, China and India, have PPP-adjusted income figures that contain even more guesswork than for most other big countries. The government of China declined to participate in all the rounds of the ICP until 2005 (see Box 12.1), so the PPP estimations for China have been based on econometric regressions rather than real data; and those for India have been based on extrapolations from the 1978 price survey plus other adjustments. The lack of reliable price surveys for countries accounting for over a third of the world's population—hence the lack of reliable evidence on the purchasing power of even average incomes, let alone incomes of the poor—compromises any statement about levels and trends in world poverty. But China and India did participate in the IPC 2011 price surveys.

Note that other world variables are also subject to large but unquantified margins of error. The absolute income per capita of the poorest countries is implausibly close to the survival minimum, which probably reflects substantial undercounting of agricultural, informal, and black activities. The per capita incomes of the richest countries are undercounted because of deficiencies in measuring inflation and quality improvements, and large-scale concealment of income and wealth at the top.

Downward bias

Other sources of error may bias the poverty numbers downwards, making the number of poor people seem lower than it is; and the bias may increase over time, making the trend look rosier than it is.

First, the Bank's IEPL refers to purchasing power over an 'average consumption' bundle, not to a basket of goods and services that makes sense for measuring poverty (though '$1 a day' does have intuitive appeal to a Western audience being asked to support aid). It probably underestimates the income or expenditure needed for an individual (or household) to avoid periods of food–water–clothing–shelter consumption too low to maintain health; and specifically, needed for manual labour as distinct from sedentary labour. It avoids altogether the problem that basic needs include unpriced public goods like clean water and healthcare. Suppose it costs Rs.30 to buy an equivalent bundle of food in India (defined in terms of calories and micronutrients) as can be bought in the US with $1; and that it costs only Rs.3 to buy an equivalent bundle of services (haircuts, massages) as $1 in the United States (Reddy and Pogge 2003). Current methods of calculating purchasing power parity, based on an *average* consumption bundle of food, services, and other things, may yield a PPP exchange rate of, say, PPP$1 = Rs.10, meaning that Rs.10 in India buys the equivalent average consumption bundle (food, services, etc.) as $1 in the United States. But this is misleading because the poor person, spending most income on food, can buy with Rs.10 only one-third of the food purchasable with $1 in the United States. To take the IEPL for India as Rs.10 therefore biases the number of poor downwards.

We have no way of knowing what proportion of food–water–clothing–shelter needs the Bank's international poverty line captures. But we can be fairly sure that had the Bank used a basic needs poverty line rather than its present one (an average of the national poverty lines of a set of low-income countries) the number of absolute poor would rise, because the national poverty lines equivalent to a global basic needs poverty line would probably rise, perhaps by 25 to 40 per cent.

A 25 to 40 per cent increase in a basic-needs-based international poverty line would, for the reason mentioned earlier, increase the world total of people in extreme poverty by a large fraction, probably at least 25 to 40 per cent. We can be reasonably confident that switching from the Bank's IEPL to one reflecting the purchasing power necessary to achieve elementary human capabilities would substantially raise the number of people in poverty.

The second reason for suspecting that the Bank's poverty numbers make the trend look rosy relates to the effects of changes in average consumption patterns as average incomes rise. Worldwide average consumption patterns are shifting toward services whose prices relative to food and shelter are lower in poor than in rich countries, giving the false impression that the cost of the basic consumption goods required by the poor is falling. As Indians become wealthier and consume more services relative to food, a rupee appears to buy more than it used to; and so the PPP value of Indian incomes goes up. But poor Indians continue to spend most of their income on food, and for them the purchasing power of rupees has not increased. Part of the apparent fall in the number of people below a poverty line defined in PPP-adjusted rupees is therefore a statistical illusion. The widespread removal of price controls on 'necessities' and the lowering of tariffs on luxuries amplify this effect.

All these problems have to be resolved in one way or another in any estimate of world poverty, whoever makes it. The fact that the World Bank is the near-monopoly provider introduces a third possible downward bias. The number of poor people is politically sensitive. The Bank's many critics on Right and Left like to use the poverty numbers as a pointer to the conclusion that it has accomplished 'precious little', in the words of former US Treasury Secretary Paul H. O'Neill. The chairman of a taskforce established by the US Congress to report on the multilateral economic organizations described the fall in the proportion of the world's population in extreme poverty from 28 per cent in 1987 to 24 per cent in 1998 as a 'modest' decline, the better to hammer the Bank (Meltzer 2001). This critique provides a rationale for the US to control the Bank (appoint the president and maintain a big enough share of votes to exercise a veto, the only country able to do so). For its part, the Bank highlights the fall in the poverty numbers when responding to criticism from powerful member states, to show that it is doing a good job. When trying to enlist support for a bold initiative it may highlight the magnitude of poverty.

The enormous increase in the poverty numbers made in the wake of the 2005 ICP price survey adds to the sense of uncertainty. Angus Deaton argues that the increase is due mostly to the statistical technique for recalibrating the IEPL. The line is calculated as the average national poverty lines in a sample of low-income countries, one of which was India, whose national line was one of the lowest in the sample. When India's average income reached the middle-income threshold its national poverty line was removed from the sample—causing the sample average, hence the IEPL, to rise, causing the global extreme poverty headcount to rise. Having said this, Deaton also says, ‘It is all very confused, at least to me’ (personal communication, 27 December 2009). However, the Bank now puts its poverty computations online in a way that enables others to recalculate poverty numbers with different assumptions (at PovcalNet).

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KEY POINTS

- The good news is that, according to World Bank figures, the number of people living in extreme poverty fell by around 25 per cent between 1981 and 2005; and the proportion of the developing world’s population living in extreme poverty fell from half to a quarter. The bad news is that, if China is excluded, the number in extreme poverty increased. The number living on between PPP$1.25 a day and $2.50 a day (the extreme and ordinary poverty lines, based on the post-2005 PPP numbers) increased so much that the world total living on less than $2.50 a day increased. Almost 3 billion people live on an income of less than PPP$2.50 a day, more than half of the developing world’s population, more than 40 per cent of the world’s population, after decades of development.
- Examination of how the numbers are constructed suggests they contain a large margin of indeterminacy. There are reasons to presume that they may be downwardly biased, and may make the trend look better than it is.
- The international poverty lines have a weak link with the income needed to sustain basic human capabilities. However, we know enough about trends in other variables—life expectancy, heights, and other non-income measures—to be confident that ‘objective’ poverty headcounts have, indeed, fallen dramatically over the past 20 to 30 years. Moreover, the magnitude of world population increase is so large that the Bank’s poverty numbers would have to be *huge* underestimates for the world poverty rate not to have fallen. This is a historically unprecedented achievement the world can be proud of.

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How to explain the globalization consensus

If the evidence is shaky, why the confidence in the global policy community that neo-liberal globalization is the best path of *further* travel for the world? The 'law' of power hierarchies says that elites of a given political economy arrangement tend to believe theories which justify their own position. At the pinnacle of global corporate power is a super-cluster of 147 densely linked firms accounting for a high share of global corporate revenues. It is itself dominated by finance: all of the top 50 except one are financial firms (Coghalan and MacKenzie 2011). Oligopolistic financial firms, at the intersection of the investment, credit, savings processes of the global economy, are able to reap the bulk of the returns from production. This helps to explain the remarkable change noted earlier: the value of financial transactions to global GDP rose from about 14 in 1997 to almost 70 today, so that the realm of finance now swamps the realm of GDP (the 'real economy'). The shift to finance-driven globalization has driven the lift-off of top incomes from the rest, as the 'have-lots' benefit from interest payments and bonuses in the financial system, as well as from dividends. No surprise, then, that the experts invited as media commentators on economic matters come mostly from the financial sector. No surprise that after a short-lived Keynesian response to the crash of 2008, governments gave priority to 'restoring the confidence of financial markets' through fiscal austerity coupled with very cheap credit, much of which flowed into 'emerging markets' and non-productive asset markets, benefiting already rich owners. No surprise that the decades-old idea of taxing financial transactions, originally advanced by James Tobin, which seemed to take root in several European governments after 2008, has been discussed repeatedly only to be left on the shelf.

Giant firms, whether in finance or other sectors, profit from 'first-mover' advantages and other kinds of entry barriers against potential competitors. Facing few competitors, these firms want as open a global playing field for profit maximization as possible; and want to shape state policies to privilege their profit making. Neoliberal ideology helps them. First, it frames the choices as 'market' versus 'state', which obscures how giant corporations constitute a third entity colonizing both markets and states and configuring them to its own advantage. Second, it justifies maximum openness, claiming that maximum openness maximizes GDP growth in the longer run and thereby maximizes the all-important criterion of progress, aggregate consumption. Furthermore, the ideology says that 'there is no alternative': alternative policy directions are infeasible or too costly for consumer welfare. So governments must keep taxes low, avoid trade protection, avoid financial transaction taxes, and so on, all apparently for the sake of consumption, which is equated with consumer welfare, which is equated with well-being.

Neo-liberalism provides a safer justification—because ‘apolitical’—than the ones used to justify eighteenth- and nineteenth-century territorial openings, namely nationalism, racism, Christianity, and imperialism. Yet neo-liberal globalization could properly be called the ideology of a ‘new imperialism’ (Harvey 2005*b*), new because, not being based on colonies, it operates through the combination of open economic policies, an international monetary system based on the US dollar as the primary international currency, and vast numbers of students from across the world attending US and other core countries’ universities. The merits of the latter for supporting a modern imperialism were spelled out in 1924 by Robert Lansing, US secretary of state under President Woodrow Wilson: ‘ We must abandon the idea of installing an American citizen in the Mexican presidency, as that would only lead us, once again, to war … we must open the doors of our universities to young, ambitious Mexicans and make the effort to educate them in the American way of life, in our values, and in respect for the leadership of the United States….these young people will come to occupy important positions and will eventually take possession of the presidency itself. And without the United States having to spend a single cent or fire a single shot, they will do what we want….’ Of course, this modern imperialism also has an iron fist, in the form of a US military budget equal to one third of global military spending and a global network of around 700 bases, The bases are intended to contain Russia and China and to secure governments friendly to the US, especially in energy-rich areas. Beyond marginal figures on the Left and Right, the new imperialism receives remarkably little critical scrutiny, because the clever people who flock into economics and capital management include few like Maynard Keynes, who made a fortune manipulating money on behalf of King’s College, Cambridge, while also standing outside such activities and thinking for mankind.

The business community in the West, with its enormous resources, dominates the public debate about world economic order. It commissions studies, endows think tanks and university chairs, and broadcasts appropriate findings (‘political’ science) with fanfare.

The main political parties depend on the business community for finance, not on members, and present what is good for business as what is good for the nation—centre-left parties almost as much as those of the right. The parties compete to win support of the mass media. To do so they must hesitate to promote projects which run counter to shareholder interests, because media proprietors are beneficiaries of huge market capitalizations and architects of industrial concentration. We saw the power of mass media to contain a continent-wide movement of solidarity with Greece and the Syriza government in 2015, by presenting Greece as a delinquent debtor worsening its responsible creditors' problems, and not as the leader of a European-wide pushback against a failed 'austerity' structural adjustment programme coming from Brussels and the IMF. No wonder that the British Labour Party, while declaring its commitment to reduce poverty, at the same time has long boasted its unconcern about inequality. One of its leading strategists declared, 'We are intensely relaxed about people getting filthy rich.'

These political trends suggest that globalization is working at cross-purposes to democracy, as democratic systems lose their grip to regulate market competition in line with a common good whose characteristics are defined by *political*—therefore compromising—debate. For many globalization champions, stopping democratic processes from interfering with markets and multinational corporations is precisely the point; because the only meaningful common good or national interest is what the marketplace winners think. As stated by a leading neo-liberal economist in the post-war decades, Ludwig von Mises:

> Inequality of wealth and incomes is the cause of the masses' well-being, not the cause of anybody's distress … Where there is a lower degree of inequality, there is necessarily a lower standard of living of the masses.
>
> (von Mises 1955)

What held neo-liberalism in check during the long period from the 1930s to the 1970s—when income distribution in Western economies became more equal, dramatically so in the United States—was fear of an external enemy (the Soviet Union) and internal fifth column (trade unions), memory of the calamity brought by free market economics in the 1920s, the need to reward the masses who fought for the nation in two World Wars, and the surging gains in productivity and contentment as the innovations of electricity, telephone, combustion engine and indoor plumbing rolled out across the population. In these circumstances, ruling elites acted like an 'establishment' willing to forge class compromises in order to mobilize consent to their rule, which included redistribution downwards (also to boost domestic demand, given limited export markets, compared to what came later). Social movements—the labour movement, civil rights movement, women's movement, and others—helped to pass legislation which had the effect of raising the share of income at the bottom and middle and lowering the share at the top.

This changed in the 1980s as the generation that experienced the earlier calamities retired and as the angry Right came to public office determined to erode the bargaining power of trade unions and reverse the squeeze on top incomes (in the US the share of income going to the top 1 per cent fell from about 22 per cent in 1929 to about 9 per cent in the late 1970s). Losing fear of the masses, elites in politics, business, and especially finance increasingly began to operate not as an 'establishment' but as an 'oligarchy', using state instruments to redistribute power and income upwards. They justified their coup with the argument that the new structure was necessary to raise the rate of profit, which would raise the rate of growth, which would raise consumer welfare. A top UK civil servant during the Thatcher years, Sir Alan Budd, spelled it out:

> The Thatcher government never believed for a moment that [monetarism] was the correct way to bring down inflation. They did however see that this would be a very good way to raise unemployment. And raising unemployment was an extremely desirable way of reducing the strength of the working classes … [This] has allowed the capitalists to make high profits ever since.
>
> (quoted in Cohen 2003)

Deprived of their external and internal adversaries, Western governments, giant corporations, and mass media began to imagine themselves the undisputed victors of the Cold War and the incarnations of global progress, and to lead Western society and the rest of the world in the embrace of further globalization as the direction of human progress. Enabled by technological advances, opening the economies of developing countries in the name of globalization and free market economics became a crucial part of the strategy for building profits at home, redistributing upwards, and undercutting the labour movement.

At home, Euro-American policy elites—the least needy people the world has ever seen—are driving through a neo-liberal agenda in order to gnaw away at wages within their territories, while assuring their voters that there is no alternative. Hence German finance minister Wolfgang Schauble's dictum, 'Austerity is the only cure for the eurozone' (2011: 13).

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KEY POINTS

- The shakiness of the evidence that neo-liberal globalization is producing catch-up growth and win-wins all around feeds back only weakly into global policy as advocated by organizations such as the World Bank, the IMF, and the OECD. The story—framed as the application of universal laws (see epigraph 1)—is too good not to be true. It legitimizes the hugely disproportionate gains obtained by the top 10 per cent of world income distribution, by global firms based largely in the West, and by the US state which has adopted a commitment to continuous expansion of private consumption as the basis for domestic peace (also now the Chinese state). The main public-opinion-shaping media outlets are controlled by groups strongly committed to expanding the scope for private profit-seeking. Investors should be able easily to choose between options as diverse as palm oil in Amazon, oil in the Arctic, and public-private hospital partnerships in Britain.

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Conclusions

This chapter began by setting out the neoliberal globalization argument, which has profoundly shaped economic policy in most countries around the world in the last decades of the twentieth century and into the 2000s. It says that national governments can optimize their economy's creation of income and wealth by adopting free market policies and institutions, thereby extending the geographic and sectoral scope of capitalist exchange and shrinking the scope of non-market social protection. Expanding exchange is the key to a virtuous circle of higher economic growth, stronger rule of law, falling poverty, falling inequality, and stronger democracy. Countries that are poor today can enter this virtuous circle provided the government strengthens capitalist institutions internally, opens the economy to the world, creates institutions of impersonal trust, and stands against corruption; and provided it gets help from the international community. The world economy is an open system, all countries could conceivably enjoy the same high level of prosperity, just as all marathon runners could conceivably cross the line at the same time. There is no *hierarchically structured* relationship between richer parts and poorer parts. The same basic growth strategy is appropriate for all, derived from the immutable laws of economics. The World Bank's newly appointed country economist for Senegal knows what the government should and should not do before she gets off the plane. The champions of this argument—based on the idea of mainstream economics expressing universal truths, free of ideology—tend to ignore contrary evidence or treat it with the annoyance one might direct at a fly.

Globalization in question

We know that evidence underdetermines the acceptance of theories. Nevertheless, it is remarkable how influential the globalization argument became, because the evidence is ambiguous. For example, we have seen that much of the evidence adduced for 'globalization works' and 'the rise of the South' is the story of Asia, and especially China. There is no doubt that most of China's residents have benefited materially, since the 1980s, on a huge scale, by its entrepreneurs, business owners and workers exploiting opportunities in international markets, as the neo-liberal globalization argument expects.

But two big qualifications have to be made. First, the fact that hundreds of millions of people in China (and India) have attained living conditions above extreme poverty in the past 20 years does not support the idea that a general process of globalization is driving a general improvement in global living conditions sufficiently fast to bring most of the caravan of economies and peoples closer together. Much of the evidence for income convergence on a world scale between the 1980s and today disappears when China is removed. Second, China's set of policies and institutions during the past several decades of high growth would earn it a low score on the Washington–Brussels Consensus, unless the scores are reverse-engineered from high subsequent growth rates.

Widespread adoption of neo-liberal prescriptions has not much altered the decades-long coupling of growth in the South to growth in the North, and now also in China; and no developing country has reached the GDP size where its growth has a major impact on global economic conditions, except, again, China. Recall that much of the story about the rise of the South and about globalization being win-win for South and North is based on the fact that over the 2000s low- and middle-income countries experienced much faster economic growth than developed countries, which led many to suggest that the South had 'decoupled' from the North in the sense of being able to generate fast growth endogenously. The bulk of evidence suggests that the unprecedented acceleration of growth in these countries since 2000 was based less on improvements of their 'fundamentals' and more on exceptionally expansionary global economic conditions driven by unsustainable debt-fuelled policies in developed countries and latterly China (Akuz 2013). In 2006 the US's current account deficit was about equal to India's GDP. In the two years of 2011 and 2012 China produced more cement than the US did in the entire twentieth century.

High growth in China has been driven first by fast expansion of exports to the North and more recently by an investment to GDP ratio so high as probably to be unprecedented in world history. Fixed asset investment has risen to nearly 50 per cent of GDP, as compared to 30 per cent to 35 per cent in Japan during its miracle growth decade when it achieved similar growth rates as China over the 2000s. Apartment prices have risen to a dizzying 15 to 20 times the average household income in first tier cities, as compared to 12 to 15 times in late 1980s bubble-era Japan. Two decades later Japan has still not recovered from its burst bubble, and China's crash would have further-reaching consequences for the world than Japan's did.

Evidence adduced in this chapter suggests an analogy between the world economy and the physical universe: a force analogous to 'gravity' hinders upward mobility (and keeps internal inequality high), and a force analogous to 'magnetic levitation' holds up the rich economies (and keeps internal inequality relatively low). Many middle-income countries have languished in a 'middle-capabilities trap', their firms unable to break into innovation-intensive activities or into the market for branded products, where the high profits are to be made, and outcompeted by firms based in China and offshoots in Southeast Asia.

The globalization champions have tended to ignore or downplay not only the poor 'catch up' performance record of the globalization era, but also the tension between more market integration and democracy. There is an 'elective affinity' between more market integration, states relying on borrowing more than taxation, financial crises, stringent fiscal policy to free up resources for debt repayment (mandated by creditors and international organizations), and national executives which strengthen themselves at the expense of legislatures.

In terms of how global thinking about development strategy should change, we should start by setting aside the false dichotomies of open *or* closed economy, globalization as opportunity *or* threat, government limited to umpiring on a level playing field *or* government intervention to influence resource allocation. We can agree that a national incentive structure containing protection of property rights, easy entry into sectors , and encouragement to export gives the foundation for robust economic growth in developing countries. Low scores for these three features constitute significant obstacles. Then the question is how to combine the opportunities offered by international markets and incoming multinational corporations with coordinated strategies for domestic investment, corporate governance and education, so as to stimulate domestic entrepreneurs and create a more nationally integrated economy, with a more diversified production structure and substantial economic sovereignty within the developing country state rather than externalized to foreign firms and foreign governments or international organizations. With this perspective we can consider the possibilities of state-sponsored directional thrust without the discussion being hijacked by a preternatural terror of governments 'picking winners' or a conviction that the private sector can do no wrong, as in the assumption that 'corruption' is only about the public sector (Wade 2004*a*, 2015; Chang and Grabel 2014).

Elsewhere, I have outlined a set of principles that might guide an alternative approach to development strategy with a more active role for the state (Wade 2003*a*, 2003*b*, 2004*a*: ch. 11; 2015). There is not, of course, a single alternative to the Washington–Brussels Consensus. What is appropriate for middle-income, semi-peripheral economies like Malaysia and coastal China may be inappropriate for low-income, peripheral economies like Uganda.

Development strategies have to be geared to the authority structure of states and to leaders' perception of the determinants of their or their group's political survival. Some states are more 'neo-patrimonial' than others, some have a broader class-base than others, and both factors affect the degree to which the state is able to concentrate resources on sensible investment (Kohli 2004). The West is keen to promote democracy and expansion of civil society. But a democratic transition may result in business or religious capture of the state, weakened technocracy, popular disgust of politics, and erosion of a pre-existing growth coalition. In this area of appropriate state structure, we know even less than about alternative principles of development strategy. But the contrast between the development trajectory and present-day living conditions in Seoul/South Korea and Manila/Philippines is sobering for those who believe that democracy, civil society, and a directionless approach to industrial development (the Philippines' story) is the right prescription for development.

In the affluent West, the Crash of 2008 and the long and hesitant recovery suggest a crisis not just *in* the capitalist growth system but *of* the capitalist growth system, resulting from a combination of (a) dominance of the highly concentrated financial sector over politics and the real economy, (b) high income and wealth concentration at the top, and (c) states following a broadly neoliberal agenda. The conundrum is how to curb the plutocracy and its presumption of winner take all, and reverse the growth of the precariat even in the face of rapid automation, while preserving openness to ideas, people, and trade as a core political value.

The solution lies in recognizing that the West and East Asia have already passed a turning point in human history, where female fertility has fallen below replacement levels. The capitalist economy has been dependent on ever more people producing and consuming ever more stuff. An ageing and eventually shrinking population that consumes less takes us into uncharted territory, where further increases in average income are hardly associated with improvements in quality of life.

Climate change and materials shortages likewise take us into uncharted territory. But we can be fairly sure that the direction of economic development for the world has to be away from mass production and standardized consumption, with 'planned obsolescence' built into production and consumption (the 'American way of life' of the second half of the twentieth century); and towards reuse of materials (including by hiring and upgrading rather than purchase of new hardware), lower energy consumption, and more renewable energy -- but to focus only on switching to renewable energy leaving consumer demand still tethered to energy- and materials-intensive consumption is a recipe for disaster.

These trends have to be complemented by measures to change the opportunity and incentive structure so as to curb income and wealth inequality, especially in developing countries. Not only through redistributive fiscal measures like progressive taxation (and a shift away from income tax towards tax on land and buildings), blocking companies' and wealthy households' ability to hide assets and escape taxation, and public healthcare and early childhood education. Also *predistributive* ones, like measures to greatly expand access to income from capital, via wider share ownership, so that most of the population, not just the wealthy, can earn income while they sleep; and measures to reform corporate governance so as to discourage short-term profit expectations, stock buybacks, and senior executive remuneration three digits more than the average, to encourage R&D and training, and to require financial disclosures of information that 'could' (not just 'would') influence investor decisions, and employee voice in firm management. Governments will have to 'intervene' more than sanctioned by neo-liberal ideology as economies move towards less labour input and more intelligent automation ('no more average'), a trend which, if not buffered through the compromises of the political process, will give more rewards to investors and less to most labour, and will tip the balance even further from 'democratic control *of* capital' towards 'democratic control *by* capital'. All this has to go with efforts to re-energize the (non-material) aesthetic and spiritual dimension of what it means to live well on Earth. Otherwise, the history of hunting (in the Swahili proverb) will foretell the end of human history.

Economics in question

There are two criteria of 'truth' in science. One is consistency, the other, correspondence with evidence. Mathematics is the home of truth as consistency, observational sciences the home of truth as evidence. Economics claims to combine both. But much of economics, especially macroeconomics, has used another criterion of 'truth' in practice: consistency with faith in free markets, equivalent to faith in religious doctrine or political platform, which unites a group coordinated by deference to a few revered leaders, and encourages disregard of ideas and evidence from people who do not signal their membership of the group (Romer 2016). [ADD: Romer, P. 2016, 'The trouble with macroeconomics', forthcoming in *The American Economist*.]

This faith holds up the perfectly competitive market as the ideal against which to identify and correct 'imperfections' in the real world. One of the attractions of the perfectly competitive model is that it eliminates 'power'—all actors in the 'democracy of the marketplace' are individually insignificant and cannot shape market outcomes to serve their interests. So 'good' economic policy is policy which sustains competitive markets; 'bad' economic policy is policy which allows individually significant actors to manipulate outcomes in their favour. The faith also presumes that what is derived from a mathematical model has the aura of truth, what is not derived from a model is suspect or irrelevant. As Paul Krugman said about why economists failed to anticipate the Crash of 2008, 'the economics profession went astray because economists … mistook beauty, clad in impressive-looking math, for truth' (Krugman 2009).

The simplicity, elegance, and ease of mathematical formalization of neo-liberal ideas give them persuasive advantages. Presented as 'immutable laws' , they endorse politicians', officials' and policy economists' love of brevity and speed. They can readily be deployed to sanction the super-wealthy's opposition to government regulation, taxation, and downwards income redistribution. They obscure the fact that 'the (financial) markets' comprise a small number of organizations powerful enough to hold governments, especially 'debt states', over a barrel. And they connect metaphorically to the wider public's personal experience: 'just as the household has to tighten its belt in hard times, so must the government'; 'a debt problem can't be cured by borrowing'; 'tax cuts generate enough growth to pay for the cuts'; 'wage cuts raise the demand for labour'. They connect not just to personal experience but also to emotional values widely seen as not negotiable, like 'freedom', 'self-reliance', 'level playing field', 'democracy', 'efficiency'.

The political adage says, 'If you are explaining, you are losing'. Keynesian, evolutionary, institutional, and Marxist branches of economics need more explaining than neo-liberal ideas. They are more difficult to formalize mathematically, more difficult to translate into universalistic prescriptions, and more difficult to convince elites of. Also, an economist who is expert in institutional contexts, as distinct from mathematical formalism, is less likely to get published in the 'top' journals and less geographically mobile in the academic job market.

Moreover, both politicians and policy economists face strong incentives to appear certain about policy prescriptions. If they can convince their publics and clients that the alternatives are only two, one of which is obviously inferior (government interventionism or neo-liberal universals), they find it easier to induce action (see epigraph 3).

Economists have tended to harness the neo-liberal apparatus to an implicit 'maxi-max' decision rule: select the policy option which has as one of its possible outcomes one which is better than any possible outcome of other policy choices, without regard to the probability of that best outcome actually materializing (DeMartino and McCloskey 2016). The combination of the maxi-max decision rule with 'government failure is generally worse than market failure' tends to generate policy prescriptions in line with the interests of the owners and managers of capital. So economists long resisted government regulation of finance on grounds that deregulated financial markets promised bigger benefits than more regulated markets, hardly weighing the possibility that liberalized financial markets—including free cross-border flows—would pose dangers to the entire society. They have long championed production globalization (transferring factory jobs to cheap labour sites or replacing them at home with machines), which is good for capitalists and the share of profits in national income. They ignore that abandoning today's 'commodity' manufacturing can preclude entry into tomorrow's new industry, because new industries need a whole ecosystem of supplier–customer relations where technological knowledge accumulates and experience builds on experience. (Of course, production globalization has also contributed to a fall in extreme poverty and growth of the middle class in some developing countries, notably China.)

Given the severity of the 2008 Crash and Long Slump, and given what is known about the causal role of the world's leading banks and other financial firms operating in a neo-liberal regulatory framework, the visitor from Mars would be amazed to find that neo-liberalism remains the guiding ideology on the commanding heights of western economies. Politicians and economists have shifted the solution to the crisis from boosting aggregate demand, stronger and simpler regulation of private finance (higher equity requirements, not higher requirements for complex debt securities which can be turned into equity when a bank fails), and investment in infrastructure and new technologies. They focus more on cuts in public spending (especially welfare spending, to stop poor people sponging off the rest of society, unlike the wealthy), and continued reliance on expansionary monetary policy, even after the biggest monetary stimulus in history has failed to regenerate sustained growth.

The clue to the Mars visitor's amazement is the distinction between neo-liberalism as theory and neo-liberalism as source of real-world policy. The former assumes an economy of many competing firms operating in a market to satisfy individual consumers' preferences, and operating in a polity of multiple interests with a strict separation between economic and political power and tight constraints on the political executive. The latter uses the theory of neo-liberalism to disguise the way the state has restructured itself to promote the interests of the owners and managers of oligopolistic corporations. We see this from the way that the latter have emerged from the crisis even wealthier than before, and able to intensify the concentration of economic and political power to the point of allowing only marginal tightening of constraints on their operations (such as the higher capital requirements in the new Basel III banking standards, described by critics as 'a mouse').

One of the big challenges for economists is to reconceptualize the standard 'market' and 'state' polarity, which rests on the neoclassical optimizing theory of the firm, a theory which focuses on the efficiency of allocation of given resources and not on the creation of higher quality and/or lower cost products than were previously available at prevailing factor prices. Development economics must be based on evolutionary ideas, which highlight the potential synergy between innovative, profit-seeking firms and governments acting on economy-wide and international market-wide information of a kind that firms do not have to compile—and acting in line with norms of right conduct arrived at through political debate, because politicians have to pay at least lip service to collective values, while firms do not. Given that the state is also an arena in which individuals seek their personal advantage, and that states in their dealings with other states seek a delimited national advantage, civil society organizations (national and international) and interstate organizations have to help discipline firms and states.

Rethinking the prevailing assumptions about statistics presents another deep challenge. Economists tend to believe that everything that can be measured should be measured, and that statistics are a transparent lens that can be used largely to eliminate ideology and interpretive bias. They tend to be too cavalier about the 'objectivity' of the data they use, forgetting that data is never raw, never disinterested, always structured and measured according to the predispositions and values of someone, even if unaware of it.

Growth in Gross Domestic or National Product has been among the top economic priorities of just about all governments since the 1950s, yet its measurement is egregiously flawed. Nothing increases GDP like a housing boom or a costly healthcare system or a major pollution disaster or a rise in Internet gambling or people eating at restaurants rather than at home. GDP accounting does not discount consumption financed by debt, and does not count the depreciation of natural capital. GDP accounting treats government spending (for example, on education and public health) as *consumption*, not as investment, thus building in a presumption that public spending is wasteful. In low income states, compiling accurate national accounts takes resources generally not made available. Zambia's national accounts in 2010 were compiled by one person. African growth rates commonly have a margin of error of over 3 percentage points; so a country reporting 3 per cent growth might actually be growing at 6 per cent or not at all (Jerven 2013). All the discussion of growth, inequality, and poverty is hobbled by errors in our most basic measure of economic performance.

As a general rule one should always be careful with statistics compiled by organizations whose performance is evaluated against those statistics; and also with statistics used to test propositions vested with high ideological salience (such as, 'countries with higher scores on market liberalization have better subsequent performance'). Who produces the data, what incentives have they to fabricate or bend, what is their relationship to those whose performance is judged? Goodhart's law says that when a policymaker uses a variable as a target (for example, when the central bank targets the money supply) its measurement is liable to be distorted. The Chinese proverb says, 'Officials make the figures, and the figures make the officials'. The English proverb says, 'It is easier to reset the scales than to lose weight'. If the organization producing data on poverty or inequality is judged by its own numbers, its numbers and its presentations may be skewed in a favourable direction to itself and the ideology of its mandate. 'Evidence-based policymaking' becomes 'policy-based evidence-making'.

Plausible estimates of China's GDP growth, by outside analysts using real-economy indicators like railroad freight and diesel equipment sales, suggest it may be two or even three percentage points below the official figure of 6.8 per cent in 2015. India's official figure is over 7 per cent but independent analysts suggest that 5 to 6 per cent is more likely.

The World Bank has been strongly committed to the argument that governance reforms improve subsequent economic growth, and the Bank calculates governance scores for its borrower countries. Marcus Kurtz and Andrew Shrank (2007) examine Bank studies which find that better governance yields higher subsequent growth. Applying careful tests of causality, they find that the governance scores are biased by the 'halo effect' of past growth. Governance scores correlate closely with past growth, not with future growth.

The European Bank for Reconstruction and Development (EBRD) has been strongly committed to advancing neo-liberal capitalism in eastern European countries undergoing the transition from state-socialism to capitalism, one of the most fundamental economic experiments of the second half of the twentieth century, Each year it calculates each country's score on an economic liberalisation index. It finds that countries with higher scores have higher subsequent growth, which confirms the validity of the EBRD's mandate. David Stuckler *et al*. (2009) compare the EBRD's own country reports with the scores meant to be derived from them.. They find systematic bias in translating from reports to scores, to bring the scores (calculated retrospectively) into close correspondence with the growth performance which is known when the scores are calculated.

Again, the Food and Agriculture Organization (FAO) each year publishes a report on ‘food insecurity’ (hunger), which gives the number of people in the world who are undernourished. The UN’s Millennium Development Goals (MDGs) included the goal of halving the number of hungry people in developing countries by 2015 compared to 1990. Over the 2000s FAO several times revised upwards its estimates of the hunger headcount in developing countries *in 1990*, from 789 million in steps up to 995 million. This upwards adjustment of the 1990 estimate allowed FAO to claim in 2014 that the MDG target was within reach, and hence that it and western aid givers had done a good job: ‘hunger is being defeated’ (Caparros 2014).

‘Thumbs on the scales’ leads into ethics. Mainstream economists have shifted the discipline from a moral science, where questions like the relationship between freedom and equality could be discussed non-mathematically, to a mathematical allocative science stripped of explicit ethics. Yet the profession should give even more attention to the ethical terrain on which its members operate than do the other social sciences, at least as much as law, civil engineering and medicine (DeMartino and McCloskey, 2016). Why? First, economists have more impact on the life-chances of populations around the world than other social scientists. Second, economists deal with those they serve from a position of epistemic superiority compared to other social scientists, based on the unification of the mainstream discipline around mathematical formalism. Third, they tend to operate on an assumption of epistemic certainty or sufficiency, insisting that they know what is the best path for others to achieve their objectives—while leaving their underlying ethical position implicit (the default policy stance for governments should be more market liberalization). In the real world, economists do not know enough to warrant the high confidence they have in their recommended policies. Outside of controlled conditions they necessarily operate with epistemic uncertainty or insufficiency. The ethics of the profession should therefore require them not just to disclose conflicts of interest, but also constantly to emphasize the uncertainties of the data, the limitations of their expertise, the potential dangers of their prescriptions not working out as planned. They should nurture a norm of ‘complementary pluralism’ in the discipline rather than defend mathematical formalism of neoclassical precepts as the single valid approach. Just how far this is from mainstream faith is colourfully captured by Pontus Rendahl, macroeconomist at Cambridge, who says that since mainstream economics has ‘immutable laws’ it would be wrong to teach heterodox theories as though they have equal validity. ‘In the same way, I don’t think heterodox engineering or alternative medicine should be taught’. The joint head of economics at Manchester University, Ken Clark, recently dismissed non-mainstream economists as pedlars of ‘leeches, tobacco-smoke-enemas and homeopathy.’ Pilling, 2016.) [EDITOR: ADD: Pilling, D. 2016, “Crash and learn”, Financial Times, October 1-2].

It is past time to bring questions of economic ethics up from the ocean of silence. Adam Smith would be first to applaud. {EDITOR: DELETE THIS REFERENCE] Dani Rodrik, one of today’s Adam Smith’s , can have the last word. ‘Too often economists debate a policy question as if one or the other theory has to be universally correct … In fact, which model works better depends on setting and context …If we economists understood this, it would make us more humble, less dogmatic, and more syncretic’ (quoted in Farrell, 2016).

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QUESTIONS

1. What is ‘the free market’?
2. What arguments and evidence do liberal writers use to make the case that globalization increases growth and reduces poverty and inequality?
3. What are the advantages and disadvantages of using purchasing power parity (PPP) measures for comparing incomes across countries?
4. What are the main difficulties in measuring the number of people living in poverty?
5. What are the advantages and disadvantages of the various ways of examining the extent of inequality within and between countries?
6. How much change has there been in the global distribution of income in the last 40 years?
7. Why might there be problems with the statistics that the World Bank and other international agencies use on poverty and inequality?
8. How can the neo-liberal argument be tested empirically? And how do its assumptions shape its conclusions about the appropriate role of the state?
9. Should one be concerned about rising levels of inequality in the global economy?

10. What are the implications of the trends in growth, poverty, and inequality for the agendas of the multilateral economic organizations?
11. Does it make sense to apply the concept of ‘imperialism’ to the current world order?

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http://utip.gov.utexas.edu University of Texas Inequality Project.

www.unido.org United Nations Industrial Development Organization (UNIDO).

www.columbia.edu/~sr793 Monitoring Global Poverty.

www.worldbank.org/poverty World Bank PovertyNet.

www.bris.ac.uk/poverty Townsend Centre for International Poverty Research.

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ONLINE RESOURCE CENTRE
For additional material and resources, please visit the Online Resource Centre at:

www.oxfordtextbooks.co.uk/ravenhill5e

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