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On the Causes of Increasing World Poverty and Inequality, or Why the Matthew Effect Prevails

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In the 1870s the American economist Henry George remarked that 'the association of poverty with progress is the great enigma of our times'. Today the enigma is well on the way to being solved. World poverty and income inequality have both fallen during the past 20 years, thanks in large part to the third great wave of 'globalisation' (rising economic openness and integration of national economies).[1] This, at least, is the claim of the neoliberal argument, which supports the optimism about globalisation that emanates from the pages of the World Bank, the International Monetary Fund (IMF), the World Trade Organization (WTO), *The Financial Times, The Economist* and other organs of 'thinking for the world'.

For example, the World Bank says that the number of people in extreme poverty (living on an income of less than US$1 a day in purchasing-power-parity [PPP] terms) has fallen in the past two decades for the first time in more than 150 years, from 1.4 billion in 1980 to 1.2 billion in 1998.[2] No ifs or buts. Or, in another version, the Bank says that 'the long trend of rising global inequality and rising numbers of people in absolute poverty has been halted and even reversed [since around 1980]'.[3] This reversal of the long trend is the 'net effect', says the Bank, of surging globalisation; as shown by the fact that the big falls in poverty and inequality—sufficient to reverse the long global trend—have occurred in the 'new globalisers', that is, countries that had the biggest increases in trade to Gross Domestic Product (GDP) in 1977–97 (the top one third in a sample of developing countries ranked by trade/GDP increase). The 'non-globalisers' (the countries in the bottom two thirds of the ranking) make little or no contribution to the reversal of trend.

The empirical evidence thus confirms the neoliberal predictions that openness is good and more openness is better, both at the level of the world economy and at the level of national economies. Those who oppose further liberalisation (including trade unions, sections of business) must be acting—wittingly or unwittingly—out of 'vested interests' or 'rent seeking', and the few marginal academics who argue against simply do not understand the theory. Those who

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care for the general interest of nations, the world, and especially the poor, should ignore them. The mandates of the international financial institutions (including the IMF, the World Bank and the WTO) should continue to centre on the drive to liberalise markets and keep them free of restrictions (subject to environmental sustainability and protection of vulnerable groups like indigenous peoples); and they should receive public support provided that they stick to this agenda (though some neoliberals still regard them as 'socialist' and in need of shrinking or even closing down).

The underlying theory rests on the notion of comparative advantage—that in an open economy resources will move to their most efficient uses. It further assumes that decreasing returns prevail, that beyond a certain point additional inputs yield decreasing marginal returns. So, when a high cost, high wage, high saving economy (A) interacts through free markets with a low cost, low wage, low saving economy (B), capital tends to move from A to B in search of higher returns, and labour from B to A. This is good for 'world' poverty and inequality.

In a previous essay I argued that world poverty—the number of people living in extreme poverty, known as the poverty headcount—may be increasing; and that world income inequality may also be increasing.[4] This strikes at the heart of the neoliberal argument. It suggests that Henry George's enigma may be deepening; or, in more analytic terms, that at the level of world economy as a whole increasing returns in income generation—the positive feedback of the Matthew effect, 'To him that hath shall be given'—prevails over diminishing returns, despite the third wave of globalisation. For economics this is very bad news.

Leading theorist John Hicks considered introducing an assumption of increasing returns into economic theory in the late 1930s and drew back in alarm. 'It must be remembered that the threatened wreckage is that of the greater part of general equilibrium theory', he warned, because 'unless we can suppose … that marginal costs generally increase with output at the point of equilibrium … the basis on which economic laws can be constructed is shorn away'.[5] The need for determinate mathematical solutions bent economics—as the aspiring universal science of human behaviour—away from the study of increasing returns, not for any reason to do with the real world but because increasing returns are difficult to treat mathematically. But the framework thus constructed also bolstered economists' normative faith in free markets and distrust of the state. Now this evidence on poverty and inequality—and quite a lot of other evidence as well—challenges the normative faith as well as the conceptual apparatus.

Having indicated what is at stake I now summarise the earlier findings about levels and trends and then go on to talk about some of the bulldozer (not scalpel) causes.

World poverty and inequality

To get an overview of what we are talking about, consider Figure 1. It shows the distribution of the world's population by the average income of the country in which they live. It shows incomes measured at purchasing power parity and divides India and China into rural and urban sectors. We want to know the

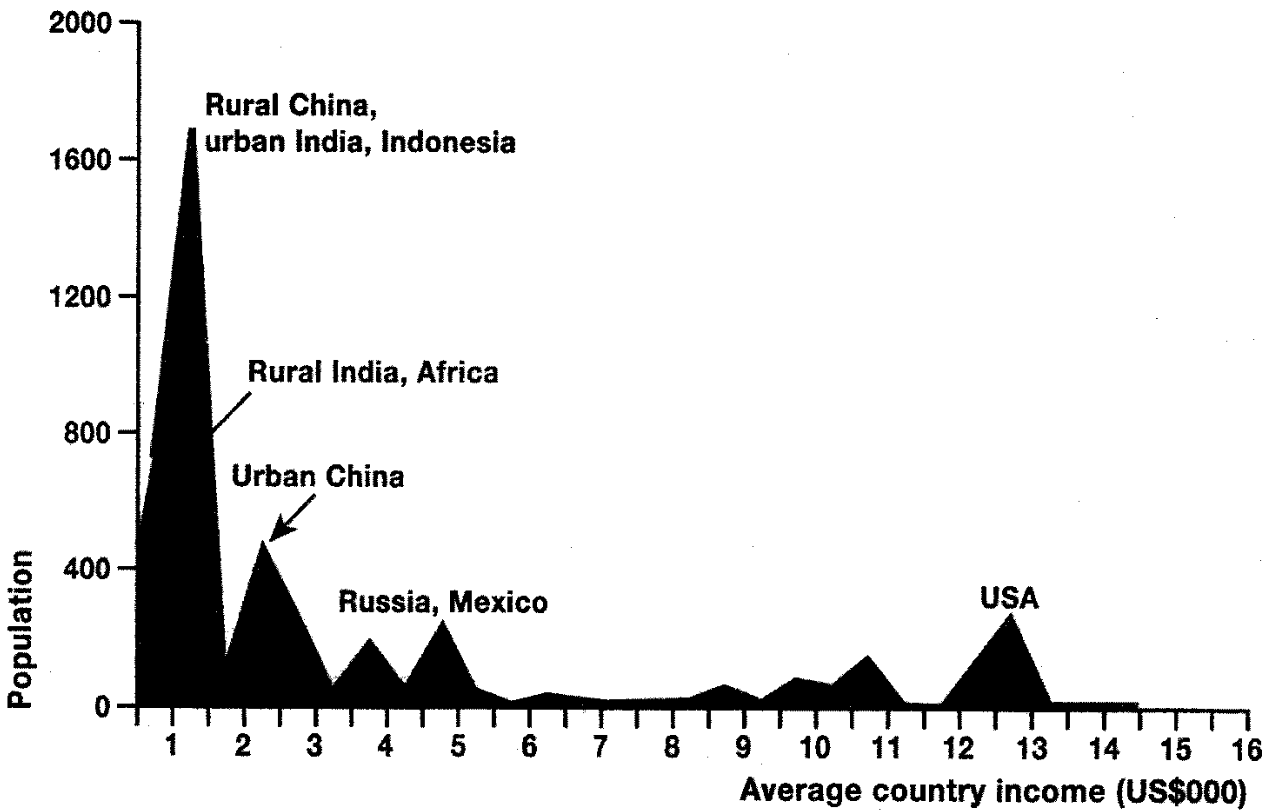

FIGURE 1. World income distribution, 1993, by average country income, cardinal scale.

Source: Branko Milanovic, 'True World Income Distribution, 1988 and 1993: First Calculations Based on Household Surveys Alone', *Economic Journal*, Vol 112, No. 476 (2002), pp. 51–92.

number of people living in extreme poverty and its trend, and the degree of inequality of income distribution and its trend.

On poverty the strong conclusion is that we must be agnostic about the poverty headcount—level and trend—because deficiencies in current statistics make for a large margin of error. The less strong conclusion is that the poverty numbers are higher than the Bank says, and the numbers have risen over the past two decades. On the other hand, it is plausible that the *proportion* of the world's population in extreme poverty has fallen in the past two decades. The margin of error would have to be huge for this not to have happened.

On income distribution the strong conclusion is that the only valid short answer to the question, 'What is the trend of world income distribution?', is: 'It depends'. It depends on the particular combination of measures, samples and data sets—for example, on the choice between (1) incomes measured at market exchange rates or in terms of PPP; (2) inequality measured in terms of average country incomes ('between-country' distribution) or in terms of both between-country and within-country distributions (that is, the distribution between all individuals or households in the world regardless of where they live); (3) countries weighted equally or by population; (4) inequality measured as an average across the distribution (such as the Gini coefficient) or as a ratio of top to bottom (such as top decile to bottom decile, or 'core' zone to 'peripheral' zone); and (5) national income distribution calculated from household surveys or national income accounts. There is no single 'best' combination. At least 10 combinations are plausible, and they yield different conclusions about magnitudes and trends.

One combination does indeed yield the neoliberal answer. It uses (1) PPP incomes, (2) average GDP, (3) countries weighted by population and (4) Gini or other average coefficient. World income inequality measured in this way very likely fell in 1980–2000.

There are just two problems. First, take out China and the falling disappears; take out India as well and the trend is clearly increasing. Hence falling inequality is not a generalised feature of the world economy in the third (post-1980) wave of globalisation, even using the most favourable combination. Second, this combination is not interesting because it ignores trends in distribution within countries. We would not be interested in a statement about US income distribution based on average state income weighted by state population if we had data on individuals or households.

From hereon the neoliberal argument fares even worse. World inequality is certainly increasing—fast—when incomes are measured in current exchange rates. But most economists say that this is irrelevant, because incomes should always be measured at purchasing power parity, not at market exchange rates. This is true in principle if we are interested in income as a proxy for well-being, though the margins of error in current measures of PPP-incomes (especially for China, India and the former Soviet Union before 1990) are probably not much less than those in market exchange rate-incomes. But we are often interested in income as a proxy for international purchasing power, because this is more relevant than PPP for measuring relative impacts of one part of the world on others, including the ability of one set of people (for example, in a developing

country) to import, to borrow, to repay loans, and also to participate in international rule-making fora. The difficulty that developing country governments face in staffing offices in the rule-making centres and in hiring consultants and lawyers to advise them in international negotiations is directly related to the widening of inequality in market-exchange-rate terms, because they must pay in US dollars bought at current market exchange rates, not PPP-adjusted US dollars. Creditors have not been lining up to accept debt repayment in PPP-adjusted dollars.

Income inequality is also increasing when PPP-adjusted inequality is measured in terms of ratios of richer to poorer income deciles, which captures the idea of polarisation better than the Gini or some other average. The several other plausible combinations of measures yield more ambiguous results, more contingent on things like the time period and the countries included in the sample. But several recent studies, using different methodologies, different samples, different time periods, do find that world income inequality has risen in the period since the early 1980s.[6]

It is therefore disingenuous to say, *tout court*, that world income distribution has become more equal in the third wave of globalisation. More likely, a rising proportion of the world's population is living at the ends of the world income distribution and a rising share of the world's income is going to those at the top (see Figure 2). Most of the population of China and India are still at purchasing-power-parity incomes that put them in the bottom third, not the middle, of the distribution.

However, the whole discussion about inequality misleads by considering only relative incomes. Absolute income gaps between the West and the rest are widening even in the case of the fast growing countries like China and India, and are likely to go on widening for another half century. No one disputes this, but it is treated as a fact of no significance.

Country mobility

If we tip Figure 1 on its side to put income on the vertical axis we are led to wonder about forces in the world economy analogous to gravity and electromagnetic levitation, the first keeping the great mass of the world's population from rising up the income scale, the second keeping the 15 per cent in the states of the core from falling.

Studies of country mobility suggest that the rate of mobility up and down the scale is rather low. One study took the real Gross National Product (GNP) per capita of 100 countries between 1960 and 1999 and found a robustly trimodal distribution of world population against the log of GNP per capita.[7] The three income zones might be taken as empirical correlates of the conceptual zones of core, semi-periphery and periphery. Seventy-two of the countries remained in the same income zone over the whole period sampled at five yearly intervals (for example, Australia remained in zone one, Brazil in zone two, Bolivia in zone three). The remaining 28 countries moved at least once from one zone to another (for example, Argentina from one to two). No country moved more than one zone. (South Korea, Hong Kong and Singapore in 1960 were already in the

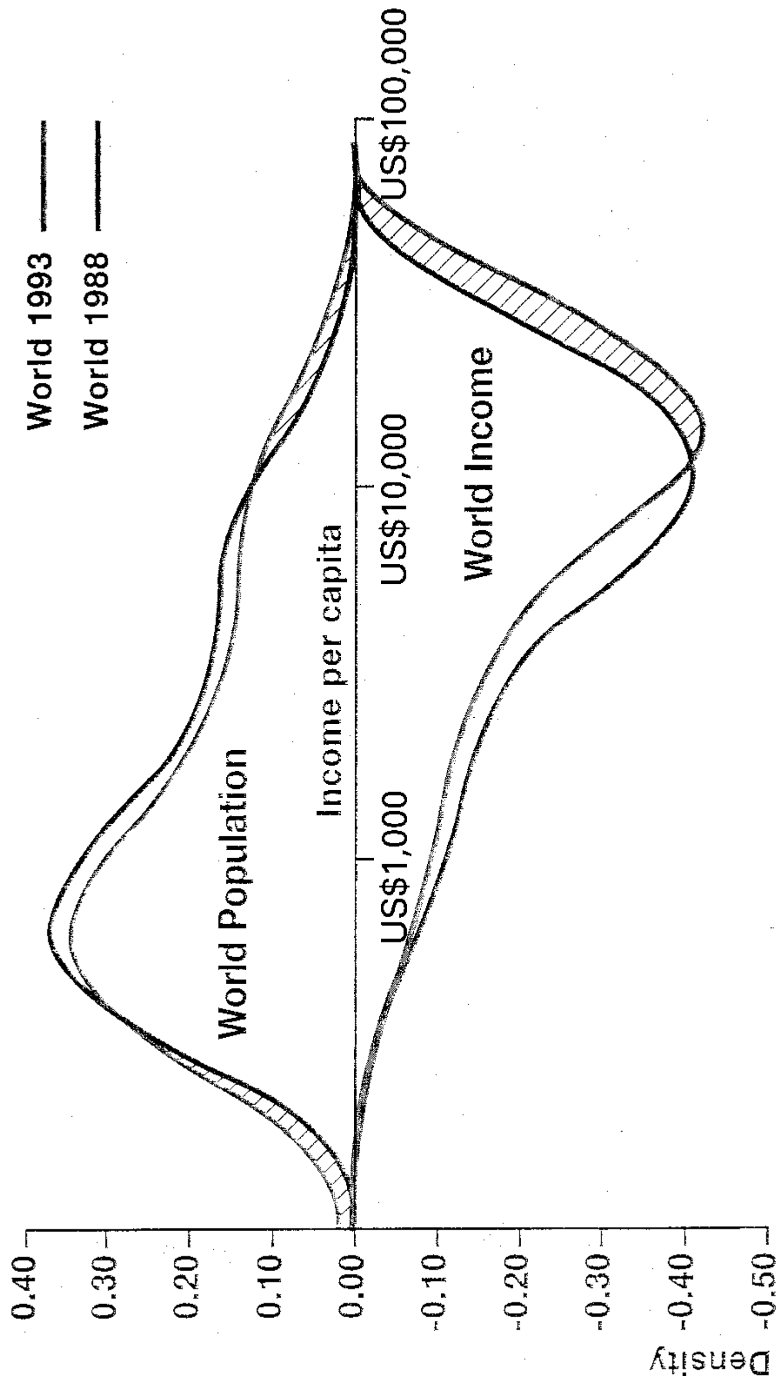

FIGURE 2. World income distribution, 1988, 1993, log scale.

Source: Based on Milanovic, 'True World Income Distribution'. *Note*: Includes between-country and within-country distributions; incomes measured at PPP, on log scale. Shaded areas indicate rising share of world population at the top end and the bottom end between 1988 and 1993 (top half), and rising share of world income accruing to people at the top end (bottom half).

middle, not low zone.) There are about as many cases of upwards movement as downwards.

Fourteen countries had ‘stable’ moves in the sense that their position in 1990 and 1999 was one zone above or below their position in 1960 and 1965. Greece moved stably up from two to one, Argentina moved stably down from one to two, El Salvador moved stably down from two to three. As many countries moved stably up as down. When more than 80 per cent of countries ended the twentieth century in the same zone as they were in 40 years before, country immobility is the predominant fact. Unless one supposes, improbably, that country economic policies remained unchanged in the non-mobile countries, were ‘good’ in the countries that went up and ‘bad’ in the countries that went down, this suggests that forces other than good or bad policies had a powerful effect on country position and change in position.

The globalisation hypothesis

The neoliberal argument says that ‘openness is a necessary—though not sufficient—part of modern economic growth’, and that ‘more open’ economies perform better than ‘less open’. The World Bank recently restated this argument in *Globalisation, Growth and Poverty: Building an Inclusive World Economy*.[8] Globalisation in the form of increasing openness of national economies to movements of goods, services, capital and skilled labour has been reducing world poverty and inequality, it says.

The obvious critique is that it is probably explaining the wrong trends. But, in addition, it loses credibility by measuring globalisation as the change in trade/GDP, irrespective of level. It ranks a sample of countries by the increases in trade/GDP over 1977–98; calls the top one third ‘more globalised’ or ‘globalisers’ or ‘open’, and the bottom two thirds ‘less globalised’ or ‘non-globalisers’; calculates the economic performance of the two groups; finds that the former does better than the latter on several measures; and then concludes that liberalisation of trade policy drives the increase in trade/GDP and increase in trade/GDP drives better economic performance. ‘Thus, globalisation clearly can be a force for poverty reduction’, it says.[9]

The problems come together in the case of China and India. China and India have experienced relatively good economic growth performance over the past one (India) or two (China) decades, and their population size ensures that the world results are much affected by how they are classified. The Bank study classes them as ‘more globalised’ because they have experienced relatively fast increase in trade/GDP over 1977–98, and suggests that their relatively good economic performance, and that of the other globalisers, is due in large part to their fast increase in trade/GDP—though it adds that other ‘reforms’ (to strengthen property rights, rule of law and macroeconomic stability) also helped. ‘As they reformed and integrated with the world market, the “more globalised” developing countries *started to grow rapidly*, accelerating steadily from 2.9 per cent in the 1970s to 5 per cent through the 1990s.’[10] The fact that China and India continued to have substantial trade protection and capital controls, and other market restrictions that run against the neoliberal economic policy pre-

TABLE 1. Trade-dependent non-globalisers and less-trade-dependent globalisers

	Exports/GDP			GNP Annual Average Rate of Growth 1988–99 (%)
	1990	1999	% change	
Non-globalisers				
Honduras	36	42	17	− 1.2
Kenya	26	25	− 0.04	0.5
Globalisers				
India	7	11	57	6.9
Bangladesh	6	14	133	3.3

Source: World Bank, *World Development Report 2000/01*, Tables 1 and 13. The classification of countries comes from World Bank, *World Development Indicators* (World Bank, 2002).

scription of the World Bank, is glossed. All the attention is directed at the liberalisation, as though only the liberalisation could have helped their growth, not the remaining protection and other market restrictions, even though they both began to grow fast well before they undertook much trade liberalisation.

On the other hand, many economies that are very poor, slow growing, very open, with high trade/GDP are put in the category of 'non-globalisers', because their rate of increase over the past two decades was relatively low. This audacious use of language ensures that the 'non-globalisers' have worse performance than the 'globalisers'—including countries that remain relatively closed in terms of both restrictive trade policy and low trade/GDP.

Table 1 illustrates the problem. The two 'globaliser' countries have low exports/GDP but high growth; the two 'non-globaliser' countries have high exports/GDP but low growth.

When trade is used as a proxy for globalisation we should separate out the effect of country size on trade/GDP levels from other factors determining trade/GDP, including trade policies, because the single best predictor of trade/GDP is country size (population and area). We should make a clear distinction between statements about (1) levels of trade, (2) changes in levels, (3) restrictiveness or openness of trade policy, (4) changes in restrictiveness of policy and (5) the content of trade—whether a narrow range of commodity exports in return for a broad range of consumption imports, or a diverse range of exports (some of them replaced imports) in return for a diverse range of imports (some of them producer goods to assist further import replacement).

The problem, though, is not just 'increase in trade/GDP' as the measure; it is also the inattention to things other than trade. What about people flows, ideas flows? Imagine an economy with no foreign trade but high levels of inwards and outwards migration and a well-developed diaspora network. In a real sense this would be an open or globalised economy, though not classified as such. And what about the impact of the current, post-Bretton Woods framework or regime of the world economy, or what Gowan describes as the 'Dollar-Wall Street regime'; namely, the dominance of a debt money (rather than an asset money), the US dollar, and the dominance of private (rather than public) international

financial markets centred on the USA?[11] Globalisation in this particular framework may have different effects than globalisation in an alternative framework.[12]

Structure and agency in global inequality

The development economics and modernisation theory of the 1950s to the 1970s would point to failure to industrialise as the likely cause of negative trends, on the assumption that (market-friendly) industrialisation is the vehicle to carry developing countries close to the prosperity of the developed world.

No. Taking manufacturing's share of GDP or of employment we find a remarkable convergence—developing countries as a group now have a bigger share than developed countries.[13] But each additional increment of manufacturing in developing countries is yielding less income over time. This is not what one would expect if manufacturing in developing countries was embedded in a dynamic capitalism. The failure of this prediction may help to explain why industrialisation has disappeared to the margins of the 'international community's' development agenda. The World Bank scarcely mentions it. In the Bank's eyes, development is about poverty alleviation, market access, good governance and environmental protection, not about capitalist industrialisation as such.

If failure to industrialise is not the culprit, what other factors might explain rising income inequality? A large part of the answer must relate to the determinants of the world location of qualitatively different activities (different in terms of their contribution to growth); in particular, the world location of activities subject to increasing returns and those subject to decreasing returns. We know that in the general case location patterns can be understood in terms of the relative strength of agglomeration and dispersion tendencies. We also know that there have indeed been powerful dispersion tendencies at work in 'manufacturing' as a whole; but that the dispersion has not yielded income convergence. To understand why, we must disaggregate the manufacturing value-chain and factor in the increasing dominance of finance in the advanced economies, and we also have to combine these 'structural' factors with considerations of 'agency'—the US 'primacy' strategy and certain design features of the architecture of the world economic order that came out of the strategy.

I consider the following: (1) 'sticky' locations for high value-added/increasing return activities; (2) decreasing returns in the middle levels of the manufacturing value chain; (3) continuing, perhaps even increasing, concentration of big multinational corporations on the markets of advanced economies; (4) financialisation of the advanced economies; (5) East Asia; (6) population growth; and (7) the US 'primacy' project and international regimes. With such a stretch the discussion is necessarily schematic. It is an overview on a cloudy day.

Sticky locations in increasing return activities

In the simple version of neoliberal theory, capital and technology move from high-income, high-cost zones to low-income, low-cost zones, and low-cost labour moves in the opposite direction. The result is convergence of factor

incomes, eventually. If this were the dominant trend in today's world—as dominant as in economic models—we should see falling poverty and inequality.

To understand the 'fact' of non-convergence—or uneven development, or failure of catch-up—we have to understand a general property of modern economic growth. Some kinds of economic activities and production methods have more positive effects on growth and productivity than others. They are activities rich in increasing returns (to scale, to agglomeration), in contrast to activities with decreasing returns. To oversimplify, increasing return activities are those characterised by falling marginal costs as output rises; they tend to have large unpriced 'spill over' benefits that can be captured by other firms in the locality (which therefore enjoy lower costs than otherwise); and they tend to yield higher value-added than diminishing return activities.

Countries and regions with higher proportions of increasing return activities enjoy higher levels of real incomes, in a virtuous circle; countries and regions with higher proportions of diminishing return activities have lower incomes, in a vicious circle. The central national-level development problem is to shift the resources of a national economy, at the margin, away from diminishing return activities and towards increasing return activities, away from the activities that Malthus wrote about and towards those that Schumpeter wrote about. As a first approximation, this means to shift resources out of agriculture and primary commodities and into manufacturing and related services (or into higher level processing of primary commodities).

To understand the paradox of substantial catch-up of developing countries as a group to developed country levels of manufacturing/GDP without a corresponding catch-up of income one has to start with the manufacturing value chain. The value chain is the sequence of operations that go to make final products, including research and development (R&D), design, procurement, manufacturing, assembly, distribution, advertising and sales. Thanks in part to the communications advances associated with globalisation, manufacturing value-chains have become spatially disarticulated, and value-added has 'migrated' to the two ends of the value chain—to R&D, design, distribution and advertising.[14] Activities within the value chain that are more subject to diminishing returns have been shifting to low wage zones while those more subject to increasing returns tend to stay at home.

In other words, the increasing returns/high value-added activities in manufacturing and in services continue to cluster in the high cost, high wage zone of the world economy, even when markets are working well (and not as a result of 'market imperfections'). German skilled workers cost more than 15 times to employ as Chinese skilled workers; yet Germany remains a powerful centre of manufacturing. Japanese skilled workers cost even more; yet Japan too remains a powerful centre of manufacturing, despite being only 700 km from Shanghai across the East China Sea.

Why, then, are locations sticky for the increasing return/high value-added activities? First, costs per unit of output may not be lower in the lower wage zone, because lower wages may be more than offset by lower productivity. In any case, the cost of employing people has fallen to a small proportion of total costs in automated assembly operations, often 10 per cent or less. As the

technology content of many engineering products—such as vehicle parts and aircraft—becomes increasingly sophisticated, this raises the premium on the company keeping highly skilled workers to develop and manufacture these products; and one way to keep them is to pay them highly. The fact that wages are a small part of total costs means that higher wage payments do not have much effect on the net incentive to move to the low wage zone of the world economy.

Second, the 'capability' of a firm relative to its rivals (the maximum quality level it can achieve, and its cost of production) depends not only on the sum of the skills of its workforce, but also on the collective or firm-level knowledge and social organisation of its employees. In the case of increasing return/higher value-added activities much of this knowledge and social organisation is tacit, transferred mainly through face-to-face relationships—not transferred easily between people in different places in the form of machinery or (technical and organisational) blueprints.[15] The value of tacit knowledge typically increases as a share of total value even as the ratio of tacit to codified knowledge falls with computerisation. If a firm or plant were to move its increasing return activities to a lower wage zone and some of its employees were not mobile, the costs to the firm's capacity, including the loss of tacit knowledge, may outweigh the advantages of relocation.

Third, tacit knowledge transfer is bigger the shorter the physical and cultural distance; and some other forms of transactions costs fall in the same way. This is a powerful driver of spatial clustering in increasing return activities. Firms in a network of spatially concentrated input-output linkages can derive (unpriced) spill-over benefits from the presence of the other firms and supporting infrastructure. They all get access to nests of producers' goods and services, ranges of skills, people practised at adapting and innovating, and tacit knowledge—in short, to the external economies of human capital that are a major source of increasing returns to location in the high wage zone.[16] These spill-over benefits compound the tendency for any one firm not to move to a low wage zone, or to transplant only its low value added assembly activities by outsourcing or establishing subsidiaries while holding at home the core activities that depend on varied inputs, tacit knowledge, social contacts and closeness to consumers. Further, as skill shortages develop in the core and the supply of skilled people rises in the low wage zone, firms nowadays can remain rooted in the core because skilled people are increasingly crossing borders to find them.[17]

Firm immobility is reinforced by the fact that, for many products and services, quality and value added go up not continuously but in steps. (Ballbearings below a quality threshold are useless.) Getting to higher steps may require big investments, critical masses, targeted assistance from public entities, long-term supply contracts with multinational corporations seeking local suppliers. 'Normal' market processes—now fortified by WTO agreements that make many forms of industrial policy illegal[18]—can therefore prevent firms and countries in the low wage zone from transforming themselves into attractive sites for higher quality work.

The empirical significance of these effects is suggested by the fact that about two thirds of manufacturing output in the Organisation of Economic Cooperation and Development (OECD) is sold by one firm to another firm within the OECD. In addition, parent companies based in the OECD, especially in some of the

biggest manufacturing sectors (including electronics and vehicles), have formed increasingly concentrated vertical production networks in which they put a rising proportion of routine manufacturing operations in lower tier suppliers in the low-wage zone, often locally-owned companies, while keeping control of the high value-added activities of proprietary technology, branding and marketing. They then use their market power and intense competition among the lower tier suppliers to extract more value-added from them. The lower tier suppliers are first to suffer in a recession.

This is not the end of the sticky location story. At the next round the greater wealth and variety of economic activities in the high wage zone—not to mention institutions that manage conflict and encourage risk-taking, such as legally guaranteed civil rights, social insurance, a legal system that supports limited liability, and socially more homogeneous populations—mean that the high wage zone can more readily absorb the Schumpeterian shocks from innovation and bankruptcies, as activity shifts from products and processes with more intense competition to those with less competition closer to the innovation end. There is less resistance to the 'creative destruction' of market processes, despite the fact that organising people to resist tends to be easier than in the low wage zone. Enron may go bankrupt, but there are plenty more companies to take on its business and employ its employees.

Diminishing returns in the middle rungs of the manufacturing value chain

Over the 1980s and 1990s many firms in the North moved the more labour-intensive parts of their value chains to low wage locations, and many analysts expected that the plants and firms in developing countries which undertook this work would be able to rise up the chain, undertaking progressively higher value-added work. (In apparel, this would mean moving from stitching of imported cut pieces, to cutting and stitching, to 'full package' production, including designs.)[19] They expected too that this upwards mobility would be developmentally nutritious; and that the trade flows associated with the expansion of North–South production networks would be as good for development as the arms-length trade assumed in the standard economic models.

The evidence suggests that plants and firms in the low wage zone have indeed moved up the chain—but the resulting increase in competition between low wage producers in the higher stages of manufacturing has caused a fall in returns at the higher stages.[20] One study of 'a decade's worth of hard data' found 'an almost uniform wage meltdown in the apparel industry in the Third World'.[21] The trends in apparel also apply in other assembly-intensive industries, including consumer electronics.

China is often held up as the prime example of an economy that has benefited massively from the expansion of production tied to Northern value chains. But in fact exports from foreign-funded-enterprises have yielded much less value-added for the national economy than the roughly equal value of exports from national firms, because the import content of the foreign-funded enterprises remains much higher.[22]

Here is a microeconomic explanation of the macro trend to world-wide convergence of manufacturing but non-convergence of incomes. Each increment of manufacturing in developing countries is yielding less value-added in the South and more in the North.

In short, the several mechanisms described here—particularly the combination of spatial clustering of high value-added activities in the prosperous zone and the fall in returns to the middle stages of manufacturing as more Southern producers enter them—help to explain a stably divided world in which high wages remain high in one zone while low wages elsewhere remain low, even as the industrialisation gap has closed. The important point is that well-functioning free markets in a highly economically globalised world produce, 'spontaneously', an equilibrium division of activities between the high wage zone and the low wage zone that is hardly desirable for the low wage zone.

To spell out the causality further, one might hypothesise that rising levels of (especially manufacturing) trade to GDP raise the income share of the rich in low-income developing countries, who have education and control over critical trade-related services, while shrinking the share of the bulk of the population with minimal or no education. The consumption preferences of the rich lock the low-income countries into dependence on sophisticated imports from the high income countries, restricting the replacement of imports by national production that is a key to expanding prosperity rooted in diversifying production for the national economy rather than in narrow export specialisation for foreign markets. Oligopolistic industrial organisation in the high income zone reinforces the inequalities by supporting mark-up pricing, which generates falling terms of trade for the low wage zone.

Falling terms of trade facing developing countries are a major proximate cause of the persistence of the North–South divide. The prices of exports from developing countries, not only of primary commodities but also of manufacturing goods, have fallen sharply over the past two decades in relation to the prices of exports from developed countries, depressing the share of world income going to the low income zone[23] (see Figure 3). The harnessing of China's vast reservoirs of labour has particularly depressed the terms of trade for developing country manufactures. The sharp fall in the developing countries' manufacturing terms of trade soon after 1984 is largely due to China's dramatic entry into manufacturing exports. At a stretch, one could say that China's biggest export is deflation.

Regional, not global, focus of multinational corporations

Not only are multinational corporations based in the high cost zone keeping their high value-added activities in the high cost zone, they are also depending more, not less, on the high cost, high income zone for their sales. Contrary to the common idea of markets and firms becoming increasingly global, most of the Fortune 500 biggest multinational corporations depend for most of their sales on their home region, whether North America, the European Union, or East Asia (the 'Triad').[24] Less than a dozen are 'global' in their sales, even in the restricted sense of having 20 per cent or more of total sales (from parents and subsidiaries)

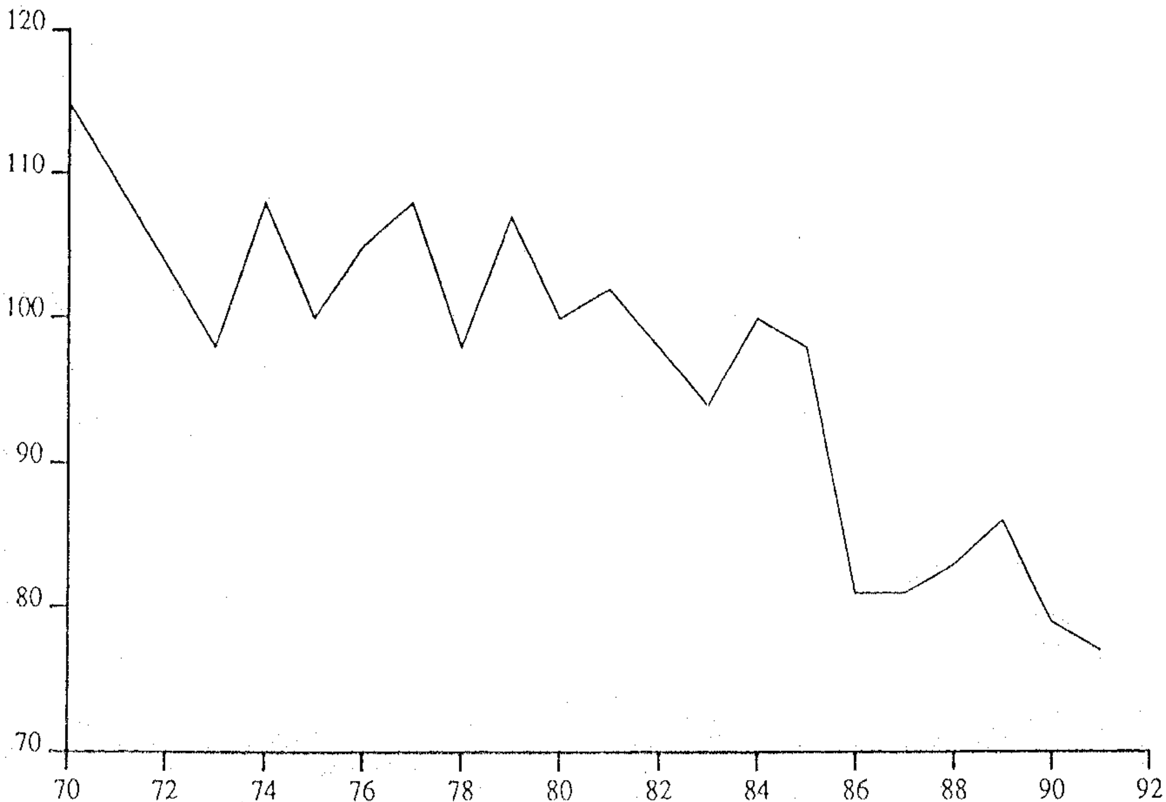

FIGURE 3. Developing countries' manufacturing terms of trade.

Source: Patrick Minford and others, 'The elixir of growth', *CEPR Discussion Paper*, No. 1165, May 1995.
Note: Ratio of developing countries' manufacturing export prices (US$) to developed countries' export prices of machinery and transport equipment and of services (US$).

in each of these three regions and virtually none depend to any significant degree on markets in developing countries outside of East Asia (more evidence of the skewness of world income distribution). Moreover, their focus on just one or two of the Triad regions intensified in the second half of the 1990s compared to the first half. The foreign operations of the multinationals became less profitable than their home-based operations in the second half of the 1990s, having been more profitable in the first half of the 1990s. The other side of this concentration of sales in one or two Triad regions is the concentration of the small proportion of total foreign private direct investment going to developing countries in only half a dozen; and most of it is for producing exports back to developed countries, not for sales in developing countries.

Briefly, multinational corporations are 'regionalising' more than 'globalising', and their regions do not include developing countries outside East Asia. They have correspondingly little interest in the economic development of developing countries.

Financialisation of the economy

More distant causes of the likely poverty and income inequality trends lie in the transformation of capitalism from assembly lines to information manipulation, from manufacturing to finance. This places higher premiums on skills and education and penalises those without.

But at the top end of the world income distribution the sharp shift of world income towards the very richest families cannot be explained by returns to education. It relates more to the shift in corporate culture from a norm of 'earned differentials' to a norm of 'winner take all', such that senior management pay deals worth hundreds of times the pay of workers no longer provoke outrage.[25]

This in turn relates to the ascendancy of finance in the most powerful economies, or the 'financialisation of the economy' (FOE). Financialisation has occurred to the point where the financial sector is the pivot of the US and UK economies, interlocked with the other sectors in ways that tend to preserve its pre-eminence. For example, finance is institutionally interlocked with the richest third of households via stock-market-based pension funds, and normatively interlocked with the corporate sector via 'return on capital' as the chief measure of corporate performance.[26] The financial sector accrues very high value-added to the economies where it is dominant, because (retail financing aside) it faces only weak price competition, it operates world-wide with clients who, understanding little of the more esoteric of its products, are on the wrong side of 'asymmetrical information' and easily duped,[27] and is subject to the increasing returns of reputation. Furthermore, much of its income comes from transaction fees; so it gains from a regional bubble as it arranges the inflows of finance, and gains from the subsequent crash as it arranges the outflows.

The norms and institutional models that underpin the dominance of finance in the West are then 'internationalised' to the rest of the world, partly via the WTO, the IMF, the World Bank and some bilateral aid agencies. For example, under the banner of 'capital market development' the World Bank and the US Agency for International Development (USAID) are promoting mandatory public or

private pension funds even in countries, like Kazakhstan, that lack accountants and adequate record keeping, let alone a stock market.[28] This open honey pot is a sure way to make finance the sector of choice for predatory national elites.

This is turn makes it less likely that developing country governments, often dominated or constrained by finance-based elites with easy exit options, will focus on development strategy—including long gestation projects that intensify the internal articulation of the national economy through import replacement, production diversification, technological upgrading, and the like. Finance in the driving seat erodes both economic citizenship and development strategy.

East Asia

Even about East Asia's ability to continue to defy economic gravity we should not get too optimistic. Only a miniscule portion of world R&D work is done in (non-Japan) East Asia. Virtually all of it continues to be done in the Triad countries of North America, Euroland and Japan. Even Singapore, which looks to be an Asian centre of R&D, does not do 'real' R&D; its R&D laboratories mostly concentrate on adapting products developed in North America and Europe for the regional market and listening in on what competitors are doing.[29] The much heralded 'globalisation of R&D' is really about movement within the high-income Triad.

China still relies heavily on foreign investment and imported components for its higher-tech manufactured output. Incoming foreign investment is still mainly seeking low-cost labour, tax breaks and implied promises of protection, as distinct from rapidly rising skills. Even its information technology engineering complex around Shanghai depends heavily on Taiwanese and other foreign know-how. Japanese alarm bells have been ringing at graphs showing Japan's personal computer exports to the USA falling as China's rise; but the figures conceal the fact that the computers are assembled in China using high value-added technology from Japan and elsewhere. Some of the technology is spilling into the heads of the millions of Chinese employees, almost certainly more than is occurring in other developing countries (China has 200 'technicians' per million people, using the UNESCO definition, compared to 108 in India, 30 in Thailand, 318 in South Korea and 301 in Singapore).[30] Nevertheless, if China is prevented by WTO rules from deploying the sorts of industrial policies used earlier in the capitalist economies of East Asia—used to generate productive 'rent-seeking' in activities important for the economy's future growth—it may remain for a prolonged period as an assembly platform for low value-added exports.

These qualifications should caution us about a scenario of declining world income inequality based on China's continued fast growth and transformation. But whether or not China does substantially upgrade the value-added of its exports, it will continue to cause a widening of income inequality between many other developing countries and the West. As it becomes the world centre for low-cost manufacturing it is knocking out competing producers in higher wage countries, such as Mexico and Brazil. At the same time it is boosting demand for agricultural and mining commodities from these countries. The result may be

a spatial shift of 'comparative advantage', as developing countries outside of East Asia lose comparative advantage in manufacturing and resume their earlier specialisation as commodity suppliers, now not only to the West but also to China and the rest of East Asia. One analyst observed that a 'paradigm shift' may be underway as Latin America moves away from efforts at economic diversification back to its area of historic comparative advantage—agricultural and industrial commodities.[31] In the simple economic model that still informs development thinking, specialisation in line with comparative advantage will benefit (almost) everyone. The developmental consequences of Latin America moving back towards the role of commodity supplier dramatise the failures of the model to take account of real world increasing returns.

In short, the benign effects of free markets in spreading benefits around the world, as celebrated in the liberal argument, are probably offset by other tendencies, yielding divergence between, on the one hand, an increasing returns, high value-added, highly versatile and high wage zone and, on the other, a diminishing returns, low value-added, narrowly specialised and low wage zone—even as ratios of manufacturing to GDP, total trade/GDP, and manufacturing exports/total exports rise in the latter, and even as national income inequality in the high wage zone rises towards the level of inequality in the low wage zone.

Population growth

At the low-income end, population is growing many times faster than in the rich zone, raising the share of world population living in the low income zone (Figure 1). High-income zone natural population growth (excluding migration) is close to zero; low-income zone growth is around 2 per cent excluding China or around 1.5 per cent including China. With dreadful irony, some regions where high population growth used to be seen as a problem are now experiencing the opposite: AIDS is wiping out so many adults, including farmers, civil servants, judges, teachers and other professionals, that development is going backwards. But within sub-Saharan Africa this is mainly in the eastern and southern regions; the region as a whole continues to grow faster than any other at around 2.5 per cent and is likely to continue to do so because its young age distribution imparts high growth momentum. India, even as its population growth rate slows dramatically, will experience another 500–600 million people in the next 50 years, and will overtake China.

The US 'primacy' project and international regimes

The factors considered so far are to do with 'structures' or 'parameters', not agents. But agents also have an important role in the story. They have created rules, organisations, structures which help them to win. The US government was the primary architect of the international monetary system in place since the breakdown of the Bretton Woods system around 1970.[32] One of the key features of this regime is the use of a debt currency (rather than an asset currency)—the

US dollar, not linked to gold—as the primary asset of foreign exchange reserves and the primary currency of international transactions. This feature has exempted the USA from the normal 'debtor's curse', whereby a country running sizeable current deficits must either devalue the currency or undertake aggregate demand contraction or both. On the contrary, the USA has the magical 'debtor's blessing', whereby the surplus countries on the other end of the US deficits continue to accumulate US dollar assets. Their central banks use surplus dollars to buy US Treasury Bills issued to finance the deficits, so that they in essence lend back to the USA the finance with which to cover the US deficits—the deficits themselves generate the finance with which to finance them, a kind of Says Law of deficits. Equally, they do not press the USA to lower the value of the dollar, because this would lower the competitiveness of their exports and the value of their existing reserves. Hence the USA does not have to contract aggregate demand. US interest rates are kept lower than otherwise by the inflow of foreign finance and the US dollar kept higher than otherwise. US firms are able (thanks to the high dollar) to buy up foreign assets cheaply and low US interest rates give them a stronger incentive to do so. The USA has more autonomy than any other state to set key parameters of aggregate demand in accordance with its own domestic conditions and not worry about the reactions of others. And—the bottom line—it continues to have more guns and butter than anyone else, because it faces softer trade-offs between more consumption, more investment and more military expenditure. If necessary, it can 'cash in' its military dominance for support from other states for its preferred international economic policies in a way that no other state can.

On the other hand, the Dollar–Wall Street regime, with its private (rather than public, through central banks) capital markets, puts pressure on the more successful developing countries—or those that have liberalised their capital account—to curb their growth rates so as to limit the risk of crisis triggered by sudden capital flight.

The Uruguay Round/WTO trade regime, under the banner of 'free trade and a level playing field', has tipped the playing field decisively in favour of the developed countries—as seen in the agreements about textiles, agriculture and intellectual property, and the prohibition of most of the 'performance requirements' that East Asian governments placed on foreign-invested firms, including local content and export requirements.[33] The pre-Uruguay Round norm of 'special and differential treatment' of developing countries—because they are developing—has more or less disappeared, replaced by the norm of 'reciprocity'. As a *Financial Times* editorial said, endorsing reciprocity as the obvious principle of fairness, 'they [developing countries] cannot have it both ways. *Unless developing countries … are ready to open their markets, it is unrealistic to expect industrialised ones to do so*. More to the point, liberalisation would do them good. The economics of trade, like freedom, are indivisible: there is not one set of rules for the rich and another for the poor'.[34]

Almost all the multilateral economic organisations with clout take it for granted that more market access is always better, that differences in market regulations between national markets are an undesirable obstacle to trade, that harmonisation should occur around 'international best practice', that poor coun-

tries should give high priority in terms of the use of scarce skills to meeting WTO conditions for market access.

The World Bank and the Fund have withdrawn support for industrial policies aimed at creating industries that replace imports and challenge established ones in the West—policies that might help to offset the centrifugal, polarising forces described earlier. On the other hand, their 'structural adjustment' programmes have forced adjusting countries to increase their exports quickly, and therefore to export unprocessed commodities; an effect reinforced by the tariff escalation in developed countries, which imposes higher tariffs on more processed products. The result is over-supply of commodities and falling terms of trade for commodity exporters, making a good deal for commodity consumers in rich countries.

Mongolia is a grim example. In 1991, following the break up of the Soviet Union, its government adopted a full-scale liberalisation package. Within five years its industrial sector, built up over 50 years, was almost wiped out. As people were driven back into (diminishing return) agriculture and herding, yields plunged. Its social indicators, which had been well above the norm for its per capita income, also plunged. The radically liberalising government did, however, wish to retain one industrial policy instrument, a tax on the export of raw wool (a measure the English king adopted in the 15th century, which accelerated the growth of the English textile industry). The Asian Development Bank announced it would hold up a loan until the government removed the export ban. The government obliged. More than 50 textile mills were closed. The Chinese now process virtually all of Mongolia's wool.[35]

At one remove, the development and stabilisation strategies of the multilateral economic organisations can be understood as instruments of the American 'primacy' strategy, which reached fruition during the Clinton administrations of the 1990s. Primacy refers not just to superordination, as in military and economic dominance; for superordination could be consistent with a range of political economies in other states. Rather, it refers to the establishment of a world economic order in which the political economy arrangements of other states are homogenised around an essentially Anglo-American political economic model, presented as the 'natural' kind of capitalism, analogous to Rousseau's Noble Savage. As the Noble Savage is corrupted by society, so natural capitalism is corrupted by politics and government 'intervention'. In *Time* magazine's paraphrase of the core belief of Allen Greenspan, chairman of the US Federal Reserve, 'markets are an expression of the deepest truths about human nature and … as a result, they will ultimately be correct'.[36] This bedrock belief of American elites supports the post-Cold-War US 'enlargement' strategy. National Security Affairs Presidential Assistant Anthony Lake explained the strategy in 1993. During the Cold War, he noted, opening the rest of world's markets had to be balanced against containing communism—the 'containment' strategy. With the end of the Cold War,

> The successor to a doctrine of containment must be a *strategy of enlargement*, enlargement of the world's free community of market democracies. … During the Cold War, even children

> understood America's security mission: as they looked at those maps on their schoolroom walls, they knew we were trying to contain the creeping expansion of that big, red blob. Today … we might visualise our security mission as promoting the enlargement of the 'blue areas' of market democracies.[37]

The interesting questions are how the USA has been able to harness the multilateral economic organisations—meant to be cooperatives of states—to advance its national economic and security strategy with rather little opposition; and how the pursuit of the strategy has impacted on trends in world poverty and distribution.

Conclusions

If the number of people in extreme poverty may not be falling and if global inequality may be widening (in terms of several plausible measures, and emphatically in terms of absolute income gaps) we cannot conclude that globalisation—the spread of free-market relations within the current framework—is moving the world in the right direction, with Africa's poverty as a special case for international attention. The balance of probability is that—like global warming—the world is moving in the wrong direction.

Should we worry about rising inequality?

The neoliberal argument says that inequality provides incentives for effort and risk-taking, and thereby raises efficiency. We should not worry provided that it does not somehow make the poor worse off than otherwise. The counter-argument is that this productive incentive effect applies only at moderate levels of inequality. At higher levels, such as in the USA over the past 20 years, it is likely to be swamped by social costs. Aside from the moral case against it, inequality above a moderate level creates a kind of society that even crusty conservatives hate to live in, unsafe and unpleasant.

Higher income inequality within nations goes with: (1) higher poverty (using World Bank data and the number of people below the Bank's international poverty line);[38] (2) higher unemployment; (3) slower economic growth; and (4) higher crime.[39] Evidence from across US cities suggests that greater inequality is associated with higher rates of crime. The link to higher crime comes through the inability of unskilled men in high inequality societies to play traditional male economic and social roles, including a plausible contribution to family income. But higher crime and violence is only the tip of a distribution of social relationships skewed towards the aggressive end of the spectrum, with low average levels of trust and social capital. In short, inequality at the national level should certainly be a target of public policy, even if just for the sake of the prosperous.

The neoliberal argument is even less concerned about widening inequality

between countries than it is about inequality within countries, because we cannot do anything directly to lessen international inequality. On the face of it, the more globalised the world becomes, the more that the reasons why we should be concerned about within-country inequalities also apply between countries. If globalisation within the current framework actually increases inequality within and between countries, as is consistent with a lot of evidence, increases in world inequality above moderate levels may cut world aggregate demand and thereby world economic growth, producing a vicious circle of rising world inequality and lower world growth.

Rising inequality between countries impacts directly on national political economy in the poorer states, as rich people who earlier compared themselves to others in their neighbourhood or nation now compare themselves to others in the USA or western Europe, and feel deprived and perhaps angry. Inequality above moderate levels may, for example, predispose the elites to become more corrupt as they compare themselves to elites in rich countries and squeeze their own populations in order to sustain a comparable living standard, enfeebling whatever norms of citizenship have emerged.

Likewise, rapidly widening between-country inequality in current exchange rate terms feeds back into stress in public services, as the increasing foreign exchange cost of imports, debt repayment and the like has to be offset by cuts in budgets for health, education and industrial policy.

Migration is a function of inequality, since the fastest way for a poor person to get richer is to move from a poor country to a rich country. Widening inequality may raise the incentive on the educated people of poor countries to migrate to the rich countries, and raise the incentive on unskilled people to seek illegal entry. Yet migration/refugees/asylum is the single most emotional, most atavistic issue in Western politics. Polls show that more than two thirds of respondents agree that there should be fewer 'foreigners' living in their countries.[40]

Again, widening between-country inequality may intensify conflict between states, and—because the market–exchange-rate income gap is so big—make it cheap for rich states to intervene to support one side or the other in civil strife. Rising inequality in market–exchange-rate terms—helped by a high US dollar, a low (long-run) oil price and the new intellectual property agreement of the WTO—allows the USA to finance the military sinews of its emerging empire more cheaply.

The effects of inequality within and between countries also depend on prevailing norms. Where power hierarchy and income inequality are thought to be the natural human condition, the negative effects can be expected to be lighter than where prevailing norms sanction equality and where the sense of relative deprivation is stronger. The significance for the future is that norms of equality and democracy are being energetically promoted by the prosperous democracies in the rest of the world, at the same time as the lived experience in much of the rest of the world belongs to another planet.

Moreover, all these effects may be presumed to operate in response to widening absolute income gaps even if relative income gaps are narrowing (and therefore inequality falling by our normal measures).

Development economics

If sizeable fractions of the world's population are to reach today's median income over the next half century we need to revisit the theory and prescriptions of development economics. It is one of the ironies of our time that during the great drive to mathematise economics in the 1940s to the 1970s increasing returns, cumulative causation and the like disappeared from the realm of high theory but remained in play in the sub-discipline of development economics (for example, in the ideas of the 'big push', 'unbalanced growth', 'industry first'); by contrast, since the 1980s, much work in the realm of high theory investigates the heterodox world of increasing returns, linkages, monopolistic competition and the like, while these ideas have more or less dropped out of the more applied variants of development economics. The dominant 'structural adjustment' prescriptions of the Bretton Woods organisations assume orthodox decreasing returns, stable equilibria and no significant non-market linkage effects. Sometimes the same economists straddle both worlds, setting aside their knowledge of the heterodox world of increasing returns when they deal with development policy in order to hammer home the orthodox 'fundamentals' about efficient, rent-free markets assumed implicitly to operate in a world of diminishing return activities, and hence to be self-adjusting towards an optimal equilibrium.

Contemporary applied development economics teaches that (a) economic growth is a by-product of well-functioning markets; (b) countries should specialise in line with their comparative advantage; and (c) countries should practise free trade, for free trade is Pareto optimal—the only issue of trade policy is how fast and in what sequence to move to free trade.

In the 1990s development economics has added to these 'fundamentals' a new concern with 'good governance' in the form of slimmed down, decentralised, corruption-free public sectors and participatory procedures for public investments. The neoliberal development agenda—often called the Washington Consensus—takes as its central tasks the creation of (a) efficient, rent-free markets, (b) efficient, corruption-free public sectors able to supervise the delivery of a narrow set of inherently public services, and (c) decentralised arrangements of participatory democracy and civil society. The more these conditions are in place the more development and prosperity are expected to follow.

The argument flies in the face of the history of both the now advanced countries of western Europe and North America and the post-Second-World-War success stories. The history of development suggests, on the contrary, that deliberate, government-sponsored efforts to create 'rents' (returns above the normal market level) through various forms of infant industry nurturing—aimed in the first instance at replacing some current imports with local production and at shifting resources at the margin towards increasing return activities—is an almost-necessary condition.[41] Far from specialising in line with comparative advantage, successful developers have diversified their production base, right up to the per capita income of the lower levels of the World Bank's 'high income' countries.[42] They have not relied upon well-functioning markets to produce economic growth as a by-product, for the reason that markets are good at signalling relative profitability at the margin but bad at signalling the structural

changes, the lumpy investments of the kind entailed by economic development. They have not practised free trade, by and large, and one can see on theoretical grounds why free trade may not be Pareto optimal—because free trade, by raising risk and volatility, can make everyone worse off by prompting resource owners to reallocate into lower risk, less productive activities; not to mention that, in the real world, IMF and World Bank programmes often require a cut-back in government transfer payments, and hence reduce the ability of the government to ensure that the gainers from the move to free trade really do compensate the losers.

We need to reintroduce a distinction that has dropped out of the development lexicon, between 'external' integration and 'internal' integration. In current usage 'integration' refers to integration of a national economy into world markets, and more external integration is assumed automatically to stimulate internal integration between wages, consumption and production, and between sectors like rural and urban, consumer goods and intermediate goods, and so on. Much evidence suggests, on the contrary, that deliberately engineered increases in internal integration can propel higher external integration, especially through the replacement of some current imports with national production, thereby generating demands for new kinds of imports.[43] Some import replacement occurs 'naturally' in response to transport costs, growing skills, shifting relative costs. The development experience of Latin America and Africa over the whole of the twentieth century suggests that regions that integrate into the world economy as commodity-supply regions are only too likely to remain stuck, their level of prosperity a function of access to rich country markets and (falling) prices for their narrow portfolio of commodities. Deliberate efforts to accelerate import replacement, or internal integration more broadly, can certainly go awry, as much experience in Latin America, Africa and South Asia shows. The response should be to do import replacement better, not less.

In the end the central development problematique must be less about how to alleviate poverty, sustain the environment, and establish rent-free markets and corruption-free public sectors, and more about how to create forms of capitalism able to generate rising mass living standards in the low wage zone of the world economy on the basis, mainly, of expanding domestic demand for domestic production. In this context, the rule of thumb is that an inefficient manufacturing sector is better than no manufacturing sector. For many economies (Mongolia is one), this is the choice, because an efficient manufacturing sector is nowhere in sight. It is remarkable how completely the issue of creating dynamic capitalisms has disappeared from the international development agenda. We need to re-engage with the issues that Malthus and Schumpeter were talking about.

Multilateral economic agreements

The question is how to reconfigure multilateral economic organisations so as to legitimise expanded 'special and differential treatment' for developing countries and dilute requirements for 'reciprocity', 'national treatment' and 'international best practice'. The rules of the international economic regime must allow developing countries to accelerate import replacement by measures such as

tariffs, subsidies, preferential government procurement for national firms, and targeted efforts to develop supply links between subsidiaries of multinational corporations and local firms (preferably all made conditional on improved performance of the assisted industries), and to impose restrictions on capital flows at times of surges.[44] This is what developing country representatives in international economic organisations should be concerting their agendas around.

On the other hand, it is true that China's rise to the centre of low end manufacturing has hugely complicated any concerted action by developing countries. Mexico and Korea are now likely to line up with the USA and the other Group of 7 states in seeking various forms of protection against China's exports. The political line between developed and developing countries has become quite detached from the income line.

All this policy prescription assumes, of course, that the structure of the world economy is open enough to permit the upward mobility of large demographic masses. It assumes that nothing in the functioning of world capitalism in the Dollar–Wall Street framework precludes movement towards a unipolar distribution of world income and a shrinking of the gap between bottom and top, or pushes some demographic masses down the income scale as others rise. What is the evidence?

Notes

1. The first wave was 1870–1914; the second, 1945–80; the third, 1980 to the present. See World Bank, *Globalisation, Growth, and Poverty: Building an Inclusive World Economy* (World Bank/Oxford University Press, 2002).
2. James Wolfensohn, 'Foreword', *World Development Indicators 2002* (World Bank, 2002).
3. World Bank, *Globalisation, Growth and Poverty*, p. 50.
4. Robert Hunter Wade, 'Is Globalisation Reducing Poverty and Inequality?', *World Development*, Vol. 32, No. 4 (2004).
5. John Hicks, *Value and Capital* (Oxford University Press, 1946), pp. 84–5, 88–9. Hicks continued: 'We must be aware, however, that we are taking a dangerous step, and probably limiting to a serious extent the problems with which our subsequent analysis will be fitted to deal. Personally, however, I doubt if most of the problems we shall have to exclude for this reason are capable of much useful analysis by the methods of economic theory.' I thank David Ellerman and Philip Toner for the Hicks reference. See also Erik Reinert, 'Globalisation in the periphery as a Morgenthau Plan: the underdevelopment of Mongolia in the 1990s', in: Erik Reinert (ed.), *Globalisation, Economic Development and Inequality: An Alternative Perspective* (Edward Elgar, forthcoming 2004); and Philip Toner, *Main Currents in Cumulative Causation: The Dynamics of Growth and Development* (Palgrave Macmillan, 1999).
6. They include: Steve Dowrick and Muhammad Akmal, 'Explaining contradictory trends in global income inequality: a tale of two biases', Faculty of Economics and Commerce, Australia National University, (2001), available at: http://ecocomm.anu.edu.au/people/info.asp?Surname = Dowrick&Firstname-Steve; Branko Milanovic, 'True World Income Distribution, 1988 and 1993: First Calculations Based on Household Surveys Alone', *Economic Journal*, Vol. 112, No. 476 (2002), pp. 51–9; Branko Milanovic, *Can We Discern the Effect of Globalisation on Income Distribution? Evidence from Household Budget Surveys*, World Bank Policy Research Working Papers, No. 2876, 2002; and Yuri Dikhanov & Michael Ward, 'Evolution of the global distribution of income in 1970–99', *Proceedings of the Global Poverty Workshop* (2003), Initiative for Policy Dialogue, Columbia University, available at http://www-1.gsb.Columbia.edu/ipd/povertywk.html.
7. Salvatore Babones, 'The structure of the world-economy, 1960–1999', paper presented at 97th Annual Meeting of the American Sociological Association, Chicago, 2002.
8. World Bank, *Globalisation, Growth, and Poverty*. For more examples of this kind of analysis, see Francois Bourguignon *et al.*, *Making Sense of Globalisation: A Guide to the Economic Issues* (Centre for Economic Policy Research, 2002).

9. World Bank, *Globalisation, Growth and Poverty*, p. 51.
10. *Ibid.*, p. 36. Emphasis added.
11. Peter Gowan, *The Global Gamble* (Verso, 1999).
12. It would be worth comparing the World Bank's set of 'globaliser' countries with Babone's set of seven countries out of 100 that went stably up one zone between 1960 and 1999. Do all of Babone's seven fall within the Bank's 'globalisers'?
13. Giovanni Arrighi, Beverly Silver & Benjamin Brewer, 'Industrial Convergence, Globalisation and the Persistence of the North–South Divide', *Studies in Comparative International Development*, Vol. 38, No. 1 (2003), pp. 3–31.
14. Gary Gereffi & Miguel Korzeniewicz (eds), *Commodity Chains and Global Capitalism* (Praeger, 1994).
15. I draw on John Sutton, 'Rich Trades, Scarce Capabilities: Industrial Development Revisited', Keynes Lecture, British Academy, October 2000. See also Ralph Gomory & William Baumol, *Toward a Theory of Industrial Policy-Retainable Industries*, C.V. Starr Center for Applied Economics, New York University, RR 92–54, December 1992; Michael Porter, 'Clusters and the New Economics of Competition', *Harvard Business Review*, Vol. 76, No. 6 (1998), pp. 77–90; Masahisa Fujita, Paul Krugman & Anthony Venables, *The Spatial Economy: Cities, Regions, and International Trade* (MIT Press, 1999); and Anthony Venables, 'Trade, geography and monopolistic competition: theory and an application to spatial inequalities in developing countries', in: Richard Arnott, Bruce Greenwald, Ravi Kanbur & Barry Nalebuff (eds), *Economics for an Imperfect World: Essays in Honour of Joe Stiglitz* (MIT Press, 2003), pp. 501–18.
16. Robert Lucas, 'On the Mechanics of Economic Development', *Journal of Monetary Economics*, Vol. 22 (1988), pp. 3–42.
17. I sat next to an Indian woman on a plane from London to Boston, who asked me whether she had to declare to Customs a 20 kilo bag of rice. I asked her why she was bringing such a large amount. She explained that she came from a village near Chennai (Madras), she worked as a programmer for a local software company, one day she received a letter from a Massachusetts software company offering her a job. She had never been to Delhi or Mumbai before, let alone America. She was bringing the rice as a subsistence cache while exploring for safe foods in America.
18. Robert Wade, 'What Strategies are Viable for Developing Countries Today? The WTO and the Shrinking of Development Space', *Review of International Political Economy*, Vol. 10, No. 4 (2003), pp. 621–44.
19. For example, Gary Gereffi, 'International Trade and Industrial Upgrading in the Apparel Commodity Chain', *Journal of International Economics*, Vol. 48, No 1 (1999), pp. 37–70.
20. Andrew Schrank, 'Ready-to-wear development? Foreign investment, technology transfer, and learning-by-watching in the apparel trade', mimeo, Department of Sociology, Yale University, November 2002.
21. Alan Tonelson, 'There's only so much that foreign trade can do', *Washington Post*, 2 June 2002.
22. See UNCTAD, 'China's accession to the WTO: managing integration and industrialization', in: *Trade and Development Report 2002: Developing Countries in World Trade* (UNCTAD, 2002), ch. 5.
23. ECLA, *Globalisation and Development* (ECLA, 2002), Box 2.1, p. 38.
24. Michael Gestrin, Rory Knight & Alan M. Rugman, *The Templeton Global Performance Index*, Templeton College, University of Oxford, 1999, 2000 and 2001, available at http://www.templeton.ox.ac.uk.
25. Paul Krugman, 'For richer', *New York Times*, 20 October 2002.
26. The financial sector is also among the biggest sources of political finance in the USA. On financialisation, see Robert Wade, 'The US role in the long Asian crisis of 1990–2000', in: Arvid Lukauskas & Francisco Rivera-Batiz, *The Political Economy of the East Asian Crisis and its Aftermath* (Edward Elgar, 2001), pp. 195–226; and Ronald Dore, *Stock Market Capitalism: Welfare Capitalism—Japan and Germany vs. the Anglo-Saxons* (Oxford University Press, 2000).
27. Frank Partnoy, *F.I.A.S.C.O: Blood in the Water on Wall Street* (Norton, 1997).
28. World Bank, *Averting the Old-Age Crisis*, Policy Research Report, Washington DC, 1994; and R. Holzmann & Joseph Stiglitz (eds), *New Ideas about Old Age Security* (World Bank, 2001).
29. Alice H. Amsden, Ted Tschang & Akira Goto, *A New Classification of R&D Characteristics for International Comparison (With a Singapore Case Study)*, Asian Development Bank Institute, Tokyo, December 2001.
30. UNCTAD, *Trade and Development Report*, p. 167.
31. Richard Lapper, 'China begins to exert its influence on Latin America', *Financial Times*, 26 September 2003.
32. Gowan, *The Global Gamble*.

33. Also in services. See *Out of Service: The Development Dangers of the General Agreement on Trade in Services*, World Development Movement, London, March 2002; and Wade, 'What Strategies are Viable for Developing Countries Today?'.
34. 'WTO's yard a mess: developing countries need to embrace trade reforms, too', *Financial Times*, 8 August 2003. Emphasis added.
35. Reinert, 'Globalisation in the periphery'.
36. Joshua Cooper Ramo, 'The three marketers', *Time*, 15 February 1999.
37. National Security Affairs Presidential Assistant Anthony Lake, speech of 21 September, 1993. Emphasis added.
38. Timothy Besley & Robin Burgess, 'Halving World Poverty', *Journal of Economic Perspectives*, Vol. 17, No. 3 (2003), pp. 3–22.
39. Matthew Lee & William Bankston, 'Political Structure, Economic Inequality, and Homicide: A Cross-Sectional Analysis', *Deviant Behaviour: An Interdisciplinary Journal*, Vol. 19, No. 3 (1999), pp. 27–55; Ching Chi Hsieh & Mark Pugh, 'Poverty, Income Inequality, and Violent Crime: A Meta-Analysis of Recent Aggregate Data Studies', *Criminal Justice Review*, Vol. 18, No. 2 (1993), pp. 182–202; Pablo Fajnzylber, Daniel Lederman & Norman Loayza, 'What causes violent crime?', The World Bank, Office of the Chief Economist, Latin America and the Caribbean Region, processed 1998; and Richard Freeman, 'Why Do so Many Young American Men Commit Crimes and What Might We Do About It?', *Journal of Economic Perspectives*, Vol. 10, No. 1 (1996), pp. 25–42.
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42. See Jean Imbs & Romain Wacziarg, 'Stages of Diversification', *American Economic Review*, Vol. 93, No. 1 (2003), pp. 63–86. There are interesting analytical questions about how to integrate the advantages of diversification (economic activity spreading more equally across sectors as per capita income rises, in one country) with the advantages of a rising ratio of increasing to decreasing return activities; and interesting policy questions about how and when to accelerate diversification with infant industry promotion policies.
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44. Wade, 'What Strategies are Viable for Developing Countries Today?'.