The Inequality of Nations

Alan Freeman

2004

The Inequality of Nations

Alan Freeman
The University of Greenwich
2004

Abstract

This is a prepublication version of an analysis of the world economy which appeared in 'The Inequality of Nations' in Freeman, A, and Boris Kagarlitsky (eds) (2004) *The Politics of Empire: Globalisation in crisis.* London: Pluto Press. ISBN: 0 74532 183 6.

It develops and presents rigorously much of the analysis of 'The New world order and the failure of globalisation' presented to the annual conference of the British International Studies Association in 2002. To this it adds a substantial analysis of inequality within the main continental blocs in the economy today.

It uses data published by the IMF's *World Economic Outlook* team to assess the progress of inequality and grown since 'globalisation', understood as the period of intense financial deregulation and the creation of a world market in capital.

It establishes that over the period of globalisation world inequality, measured as the ratio of income per capita in the global south as a whole and the global north as a whole, has more than doubled, whilst growth has been largely static.

Inequality between the nations making up the 'global south' has however decreased rather than increased; thus the world economy retains, in a remarkably stable manner, the same characteristics it has possessed since 1914. It contains a bloc of rich nations containing about one fifth the population of the world, and the remainder, containing four-fifth the population, with inequality between the two blocs rising secularly in the long run.

The article argues that competition between advanced nations now takes place on a continental scale, a process driving European responses to the crisis of US hegemony, and that responses from within the global south can be expected to acquire also a continental dimension.

Two supplementary documents contain charts and slides used to present the material to a seminar organised by the Norway Social Forum in Oslo, June 2003

Keywords: Divergence, stagnation, World Economy, Kondratieff, Development, Europe, US, value, price, TSSI, temporalism, profit rate, polarisation, inequality, globalisation, deregulation, imperialism, World Systems Theory, unequal exchange, dependency, North-South

The inequality of nations

Alan Freeman

1.1 ABSOLUTE DIVERGENCE

The rich and the rest: the two great blocs of the world economy

Chart 1 shows how the income of the world was shared between the countries that the IMF classifies as 'Advanced' and all the rest.[1] Chart 2 shows the proportions of world population living in these two parts of the world.

Chart 1: Share of world income Advanced The rest[2]

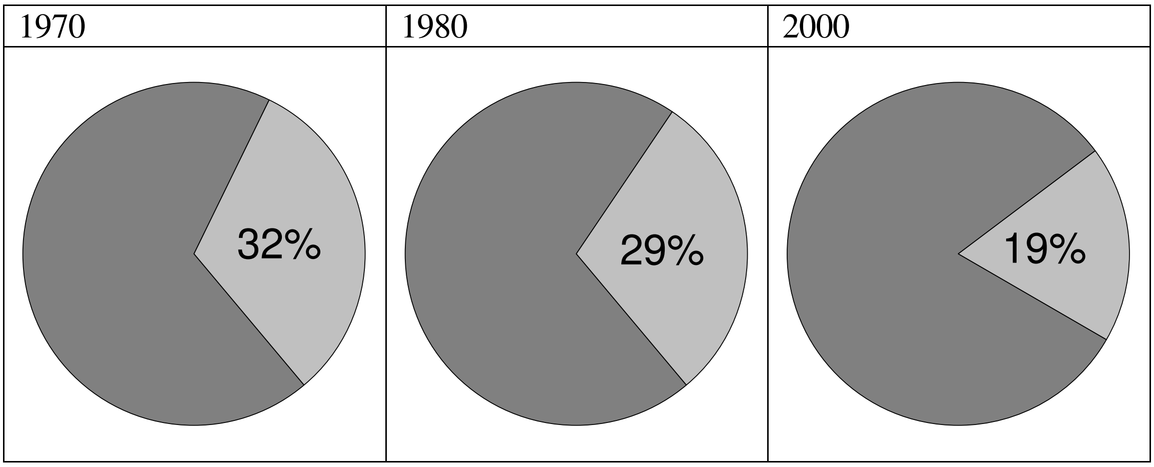
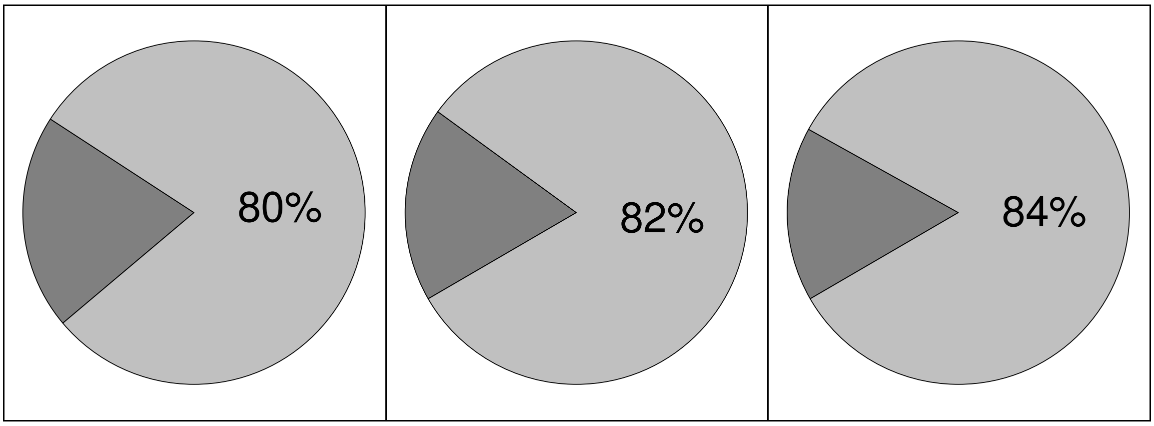


Chart 2: Share of world population Advanced The rest



Between 1980 and 2000 the rest of the world's share shrank from just under 30 per cent of the whole world's income to just under 20 per cent. At the same time, the proportion of people living there rose from 80 per cent to 84 per cent.

It follows that when the present stage of globalisation began, dating this as 1980, the income of the advanced countries was 11 times larger, in proportion to their population, than the rest of the world. By 2000 this ratio had risen to 23.

Globalisation has thus doubled the inequality between the advanced countries and the rest of the world in twenty years. This inequality, measured as the ratio between average income in the two parts of the world, grew at an annual rate of 2.4 per cent in the ten years before globalisation, and an annual rate of 3.9 per cent in the 22 years thereafter.

Globalisation, in a nutshell, equals divergence.

Table 1 GDP per capita in constant 1995 dollars

						Annual Growth rate, per cent	
	1970	**1980**	**1990**	**2000**	**2002**	**1970-1980**	**1980-2002**
Advanced countries	\$10,473	\$18,088	\$23,989	\$26,201	\$25,672	5.6	1.8
Rest of the World	\$1,248	\$1,690	\$1,356	\$1,160	\$1,100	3.1	-2.1
Ratio of GDP per capita, Advanced/Rest of the world	**8.4**	**10.7**	**17.7**	**22.6**	**23.3**	**2.4**	**3.9**
Population of the Advanced Countries(millions)[3]	*718*	*778*	*827*	*833*	*845*	*0.4*	*0.8*
Population of the Rest of the World(millions)	*2,810*	*3,466*	*4,213*	*4,288*	*4,431*	*1.2*	*2.1*

We can express the average incomes in constant 1995 dollars.[4] This is shown in table 1. While output per person in the advanced countries rose from \$18,100 to \$26,200, in the rest of the world it fell from \$1,700 to \$1,100.

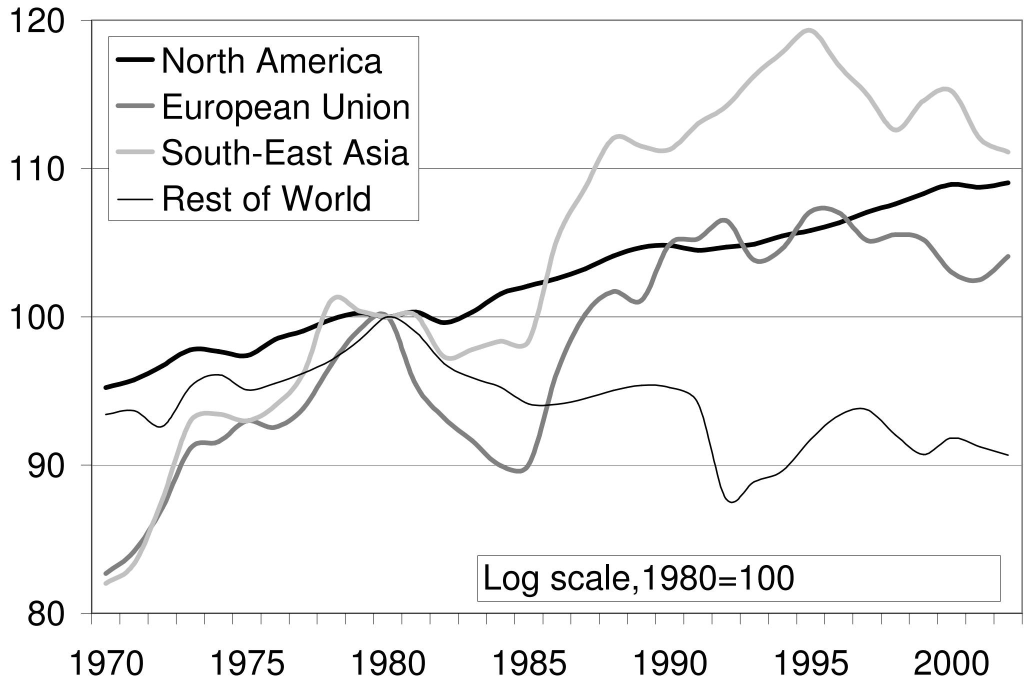
Globalisation has thus re-asserted, and sharpened to its greatest extent ever, a phenomenon which has dominated world economics and politics for a hundred and fifty years – the division of the world's nations into two fundamentally unequal blocs.

The rich fall out: behind the US miracle

Over the same period there has been a complete reversal in the relation between the USA and the other advanced parts of the world. Table 3 compares growth rates over each of the three decades up to 2000, and chart 2 shows the results in detail.

It is well known that the USA led world growth during the nineties.[5] It is less well known that this was not because it performed any better than at any time in the last half century, but because everyone else performed considerably worse. A prolonged phase of high growth rates among the USA's principal competitors, lasting from the early fifties, ended. Their growth rates fell to the level that the USA has suffered since the late 1960s.[6]

Chart 2: real GDP per capita, constant US dollars



This reverses the relation between the US and those wealthy countries which previously functioned as its unquestioning partners. Until 1980 North America was growing slower, in terms of real dollars, than all other parts of the world.[7] Thus, the economic interests of the advanced countries lay in accepting US leadership, not only in the direction not only of the world economy but in much world politics as well. German and Japanese strategy was, in essence, to fall in behind the USA politically as a means of outdoing it economically.

Table 3: growth rates in the advanced and advancing countries

Total growth of GDP per capita (per cent over the decade)	**1970-80**	**1980-90**	**1990-2000**
North America	24.6	24.8	20.9
Euro Area	122.0	25.4	-8.4
South-East Asia	128.9	68.1	19.9
Rest of the world	35.4	-19.8	-14.5

Globalisation has undone the material basis for this coalition. The last vestiges of the postwar expansion were crushed out of the USA's rivals in two waves, one in each decade of globalisation.

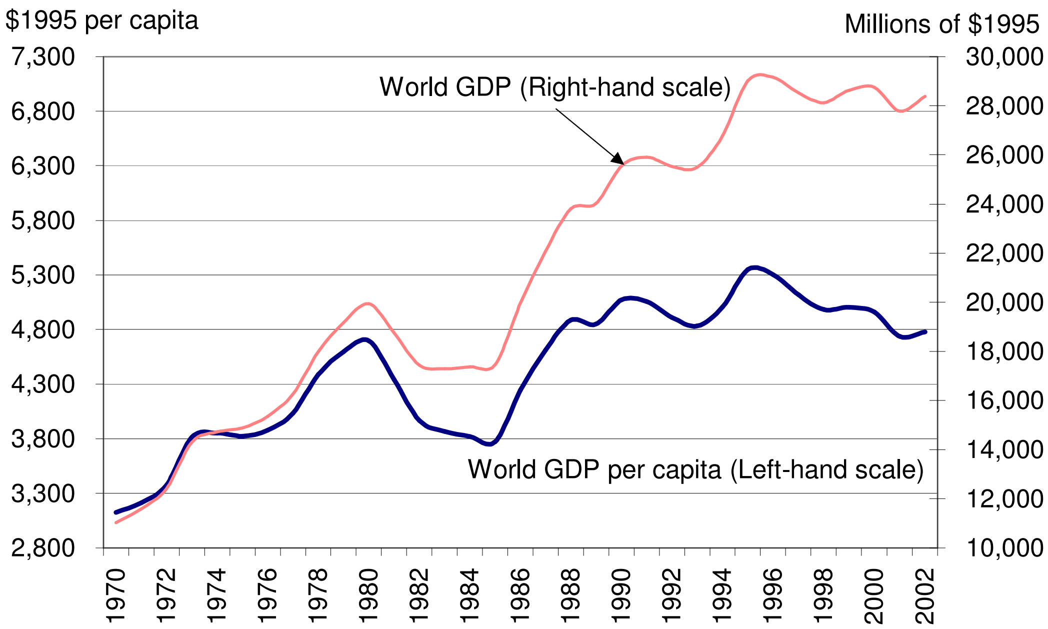
The second of these two waves was far more decisive. After an initial fall during 1980-85, both Europe and South-east Asia regained ground and by 1990 Europe had caught up its losses whilst South East Asia had resumed its high growth trend, pulling away still further from North America. Thus the opening years of globalisation did much to drive the advanced countries away from the rest, but did little to drive the advanced countries apart. The 1990s marked a historical rupture. From around 1995 *all* parts of the world slowed down relative to North America – including the other parts of the 'Advanced' world. By 2002 the USA had made good all its previous losses relative to South East Asia, and, in terms of cumulative GDP per capita growth, had clawed back the historical lead of the European Union.

1.2 ABSOLUTE STAGNATION

In the 1990s, accelerated divergence was joined by a further process: stagnation. This was brought about by the US's own failure to raise its growth rate and by sharp declines in the growth rates of the other major advanced countries. Divergence, combined with stagnation, has produced the present political crisis of world governance.

Stagnation is particularly striking because it has gone almost unnoticed. In a nutshell, as chart 1 shows, world GDP per capita has started going down.

Chart 1: world per capita GDP and world GDP, constant 1995 dollars



In 1988, the GDP of the world in constant 1995 dollars was $4,885. By 2002, it was $4,778. That is, over the intervening fourteen years, in real dollar terms, it fell absolutely. As table 2 shows, prior to the present stage of globalisation world GDP per capita was rising at between three and four percent a year. In the first decade of globalisation this fell to less than one per cent and throughout the nineties it has been negative. Globalisation has not increased the rate of world growth: it has diminished it absolutely.

Table 2 Annual world growth rates, constant 1995 dollars

	1970-80	1980-90	1990-2000
World per capita GDP	4.2%	0.8%	-0.2%
World total GDP	6.1%	2.5%	1.2%

1.3 DIVERGENCE, STAGNATION AND THE END OF GLOBALISATION

Conventional economic wisdom holds that globalisation was an economic success but a political failure. In fact it has been a political triumph and an economic catastrophe.

Its success lay in creating a governing bloc which regulated the way in which almost all nations participated in the world market, so that despite exceptions – most notably China – a more or less uniform economic order, with a single integrated economic policy, was implemented worldwide. This bloc was dominated by the rich nations and hegemonised by the USA. Its social base included the bulk of the population of the wealthy countries, a majority in their more successful clients, and a minority but governing class in the poorest countries.

European and Japanese support was secure, as was that of the NIACs, as long as the advanced or advancing countries grew at the expense of the rest. Elsewhere, pro-globalisation governments formed wherever substantial elites could reap private benefits, enjoying living standards rising above the general level in their countries – particularly where they were integrated into circuits of world financial capital. In those many countries where the beneficiaries of globalisation were thin on the ground, the bloc governed quite simply through fear: the twin threats posed by debt and capital flight.

Because of this basic consensus, much of the economic regulation of the world could safely be delegated to transnational bodies such as the International Monetary Fund, the World Bank, and the World Trade Organisation. Enforcement was not a substantive problem because, in each individual state, a politically functional government could be formed which was committed to implementing the global world economic consensus.

But this political pyramid rested on an unsustainable economic base. Political cohesion is incompatible with economic divergence. Generally speaking, the deeper the economic differences between people, the deeper their political antagonisms. Thus the only form of globalisation that can ultimately succeed politically is one based on the reduction of economic difference, not on its increase.

Such political antagonisms can be suspended or offset in a situation where world output is generally increasing, because in that case divergence is only relative. If most of those that are falling behind nevertheless enjoy a rising standard of living, and if growth in the richer parts of the world generates a politically-accessible surplus sufficient to head off political conflict, then open national and political conflict can be contained or avoided.

This was the case in the golden age of the fifties and sixties when there was a general and prolonged Kondratieff upswing. Although nations continued to move apart from one another, this meant only that some were growing faster than others, so that the number of absolutely poor people was falling. Divergence now, however, combines with stagnation. Conflict ceases to be one of many possible recourses: for more and more people, it becomes the only recourse. This, in effect, removes the entire basis for liberal democracy, since if people have no option but to fight each other in order to survive, no amount of wise regulation is going to stop them.

Through stagnation combined with divergence, globalisation itself is dissolving the pro-globalisation bloc, literally tearing it apart. Large tracts of the world have been rendered ungovernable. At best it is increasingly difficult to form stable governments which can survive politically whilst carrying out IMF policies, as the case of Argentina dramatically demonstrates. At worst, in cases such as Afghanistan the Middle East, and increasingly in Africa, political instability dominates an entire region.

The political institutions which have made globalisation possible have thus eroded the economic circumstances which made their own existence possible. This has exposed the absolute limits within which they functioned as world institutions. The basic weakness of the IMF is that it has no means of enforcement. This is particularly important for the market in capital – which is what really distinguishes the period of 'globalisation' from the general expansion of the world market. Without enforcement, a debtor can simply renege, unless legally sanctioned force compels her or him to conform. Hence when the governments of Russia or Argentina simply refused to honour their internationally-contracted debts, there was actually nothing the IMF could do except complain.

A nation state can use internal force, within its boundaries, to distrain any individual or corporate body that fails to comply with its laws. No such sanction exists on the international level. The IMF does not have an army or a police force. Therefore no matter how draconian, its policies, imposed through 'structural adjustment' plans, have always required the consent of the government concerned, in turn coerced by the threat of debt, and it is the national government that has been allocated the awkward job of suppressing domestic opposition. As countries gradually realise that there is indeed a fate worth than debt, it becomes harder and harder to secure this governmental consent; governments that do so consent have simply become politically unsustainable.

This leaves only one recourse if an advanced country wishes to impose policies on countries which cannot sustain governments which consent to them – conquest. If a country's governing institutions refuse to implement measures which are likely to lead to it losing office, there is no alternative but to set up alternative institutions by external intervention. There is no other means of compelling a country to adopt policies, or pay debts, which its government refuses to accept.

The problem with force, and conquest, is that it is basically impossible to secure multilateral consent; *conquering force is therefore the ultimate prerogative of the national state*. On this terrain, there has been no erosion of sovereign national powers whatsoever. Conquest is therefore organised by national states.

This fact ultimately renders a multinational capitalist government impossible. There is a solid material reason; the conquerors are themselves not bound by the laws of contract. They can simply impose economic terms – as is the case, for example, with the disposition of Iraqi oil. To the conquerors belong the spoils. Conquest and war are, therefore, the ultimate and logical form of economic competition.

This, not terrorism, is what led the US to revert to a unilateralist agenda and bypass the international institutions. It substituted direct military and political intervention for the old 'hands-off' policy of leaving the IMF to get on with the job on behalf of Wall Street, because the IMF could no longer do the job.

John Williamson,[8] who coined the term "Washington Consensus" explains this process clearly:

> [T]here is no longer any agreement on the main lines of economic policy between the current U.S. administration and the international financial institutions. …there is now a critical difference in attitudes toward capital account liberalization in the emerging market countries, with the IMF having beaten a well-advised retreat since the Asian crisis (see, for example, Rogoff, 2002), while the Bush administration is still using bilateral free trade agreements to bully countries like Chile and Singapore into emasculating even the most enlightened capital controls. And even on trade, the international financial institutions have expressed strong criticism of U.S. policy on agriculture and steel. So, in this sense, any Washington Consensus has simply ceased to exist—a reflection of the chasm that the Bush administration has opened up between the United States and the rest of the world.[9]

A second process accompanied this, and sealed the fate of the international institutions. At the same time that it lost its capacity to create stable governing blocs in the third world, the US has lost its political hegemony over its erstwhile partners. Multilateral conquest is bringing no multilateral benefits. A unilateral US agenda means not only that the US administration has abandoned the multilateral institutions, but that it has also made the conscious decision to advance its own interests over those of its erstwhile partners. The Iraq war made this finally clear to everyone. France and Germany opposed US policy in Iraq, not for humanitarian motives,[10] but because their economic needs were too brutally counterposed to those of the USA.

Finally, and not least – since it is probably the reason that this book exists – as the multilateral benefits from globalisation erode away, the fragile support of the working class *within* the advanced countries, above all Europe, has fallen away.

This is what really lies behind the startling growth of the 'Northern' component of the anti-globalisation movement and the peace movement alike.

Globalisation, as it has existed for the past 23 years, is self-destructing. It has given birth to a new age: of protectionism, rivalry, and war.

1.4 THE NEW AGE OF COMPETITIVE REGIONALISM

What shape might politics take in this emerging brave new world? In the third part of this chapter, I will try to answer this question in more detail by looking at its economic underpinnings. I will try to examine the possible shape of twenty-first century politics by looking at the structure of divergence within and between the world's major regions. First, however, some basic methodological questions have to be answered, the first of which is the relation between economics and politics. Most basic of these is: why is the state necessary at all?

A straightforward consequence of standard economic theory[11] is that the 'natural' tendency of markets is convergence. Divergence, according to almost all orthodox theory and quite a lot of heterodoxy, is not produced by markets but happens in spite of them – it is either the result of misguided government, malign forces such as trades unions, terrorists, and anti-globalists, or is just a residual effect of a backward past before markets came to the rescue. In technical language, convergence is *endogenous* to the market and divergence is *exogenous.*

This is difficult to square with the evidence, given that the world has been diverging more or less since the world market began by almost any measure that one cares to adopt, and has done so faster when obstacles to it have been weakest.[12] Indeed it is now harder than ever, since perhaps for the first time in history, the whole world is basically capitalist. In a certain sense, the past period of globalisation has finally settled the case against all theories of development which seek to explain the world economy as an interaction between capitalism and 'pre-capitalist' obstacles – not least, that of Rosa Luxemburg. No serious pre-capitalist obstacles to the market remain. The jury is no longer out: *capitalism* is responsible for the course of capitalist development.

A number of more or less sophisticated economic theories – the new trade theory, endogenous growth theory, and so on – seek to explain divergence through the interaction of the market with non-market phenomena. But with the exception of Marx's work, no body of economic theory contains within it the natural conclusion that markets create divergence simply because they are markets. If divergence is explained at all, it is explained as an exception. More usually, it is claimed, with an almost religious blindness to basic facts, that divergence does not happen.

What consequence does this have for the future of the state? It is my view that globalisation theory, to a great extent a creation of non-economists, has uncritically and unquestioningly absorbed the outlook of the economists, of whom it should have been far more critical. From the economists, it has become imbued with the idea that the state is an economical anachronism. But what is the theoretical origin of this idea? Basically, from an ideological premise: from the view that, left to its own devices, the market homogenises.

If this were true, it would surely remove one of the basic reasons that sets people against each other. One of the most basic functions of the state – to regulate and contain *conflict* – would, if economic orthodoxy were true, be economically dissolved.

But if divergence is the natural tendency of the market, precisely the opposite conclusion follows. All social conflicts are sharpened by divergence, the ultimate outcome being war. Politics has an indispensable function: to contain – or indeed, simply cope with – the natural processes of divergence which the market produces. The stronger the divergence, therefore, the greater the demands on the state. One of the important insights of Marx's political economy is an understanding that nation state regulates *class* conflict, which is in turn a natural outcome of one of the market's key social products, namely a separation of civil society into classes defined by the source of their income and its relation to property.

Marx's economic theory as such, however, does not dictate that the state should have a *national* form or indeed, even a territorially bounded form.[13] To the contrary, Marx was in many senses the first globalisation theorist, a fact often forgotten by both the opponents and supporters of globalisation. It was Marx who first recognised that the market forms classes on a worldwide basis, independent of nation states, and that moreover the basic solidarity of property owners against wage-earners extends over national boundaries and transcends them. The capitalist class, for Marx, was an international class formed by the market. That is why he dedicated himself to constructing international institutions of the working class, to confront it also at international level.

So why can't a world state, or a system of statelike world institutions, play the same role as the nation-state? To succeed in this, the world institutions which arose under globalisation would have had to act, as do national states, to contain divergence and regulate conflict. But the evidence is that they have done exactly the opposite: they have accentuated divergence, and spawned conflict.

Superimposed on the division of the world into classes is a division of the world's territories, arising from a second great imperative of the capitalist market – the geographical concentration of capital, splitting these territories into competing blocs. The analysis of this phenomenon was a theoretical achievement of twentieth-century Marxists; the empirical evidence is that their basic analytical categories are still valid today.

It is true that the most basic economic and social division in the world is that between classes. However, the most fundamental political division is between the 'Advanced' countries as a whole and all the others, and this establishes the institutional framework within which class conflict is necessarily played out. This gives rise to a completely different type of state in the two parts of the world –

dominant states and dominated states. The typical function of the advanced country state is the extraction of a special advantage from the rest of the world, by monopolising sources of world surplus-profit – an exceptional profit over and above the world average which arises from the functioning of the world market. The typical function of the third world, or dominated state, is to protect its capitalists against this predation. It does so by facing both ways. On the one hand it must minimise the surplus profit that they lose through the operation of the world market. On the other hand it must suppress the implicit conflict between its own working people and the unholy alliance between the predatory capitalists outside the country, and the subordinated capitalists inside.

'Globalisation' was a particular form of this whose political structure I have already analysed. In it, the predatory states delegated the economic aspect of their domination to the international financial institutions and suppressed the implicit competition between them. It is this delegation which has fallen foul of the destructive consequences of divergence. Increasingly, the dominated states have to organise their own, special, relationship with the rest of the world, just as they did at the end of the last century in the age of classical imperialism.

But the problem is that the system of dominating states is inadequate for this purpose because it consists of a single continental state – the USA – and a collection of national states, none of which is adequate on its own to confront the power of the USA, and each of which is being crushed by the fatal combination of political power and economic weight which the US state puts at the disposition of its capitalists. It is for precisely this reason that the politics of the twenty first century reduces to the political economy of *regional state-building* projects, regional alliances, and rival regional trading projects – the EEC, ALCA, Mercosur, APEC, and so on..[14]

First, the Europeans have to try and construct a continental power adequate to confront the USA economically, politically and ultimately militarily. Second, the third world countries are driven, on pain of dissolution and extinction, to construct regional blocs and proto-states adequate to defend them both against the emergent superpowers. And third, the policies of both the USA and Europe are directed constantly towards the political division of the third world, as they were in the epch of classical imperialism.

The most decisive political objective is to ensure that no continental third world state can emerge. This made destruction of the Soviet Union the prime objective of the pro-globalisation bloc. It is what requires it to demonise Islam, with its Pan-national aspirations; it makes the dissolution of India a constant sub-text; and it makes China, already in effect a continental economy, the principal obstacle to the world order which the advanced countries require. 'Terrorism' is, in effect, a codeword for the ever-present threat of continental third-world alliances – for the danger of a pan-national third world coalition of sufficient weight, and with sufficient separation from the market in capital, to chart an independent path of development.

It is thus perfectly true that the present system of states is absolutely inadequate to regulate the economic consequences of globalisation. And it is equally perfectly untrue that a world system of governance can replace it. In consequence we have entered a period of generalised crisis of world governance. This process is leading not to the abolition of the state, but to a completely new structure of states and territories, driven by two phenomena: an increasingly political struggle of the dominant bloc against the rest of the world on the one hand, and the polarisation of the dominant bloc on the other.

The real issue, therefore, is to study the structure of economic divergence region by region, to discard all utopian illusions, and ask where it is driving the corresponding structures of political domination. In order to do this, however, we need the soundest possible instruments of analysis. The next section of this chapter is therefore addressed to questions of methodology, and the last section will apply them concretely to analysing the new structure of the world's economic geography.

1.5 THE LIMITS OF STATISTICS

How much reliance can be placed on numbers derived by adding up world GDP statistics, and how much can we trust the conclusions? I want to single out three questions, which I think are central to obtaining an accurate and complete picture of the economic geography of the Twenty-First Century.

First, GDP statistics are available for whole countries only, and there is obviously differentiation within each country as well as between countries. Do national boundaries obscure the true geography of poverty? To put it more starkly, does poverty have no geography?

Second, I have studied the data by converting it into world money. I have studied both inequality, and output, in strictly monetary terms, that is, in terms of *ability to pay* – to be precise, I have expressed them in US dollars at current market exchange rates. There are other measures of both income and output – for example, Purchasing Power Parity (PPP) dollars. They often give rise to different conclusions, which is why the international institutions, which were until the early 1990s quite suspicious of them, have now enthusiastically adopted them. So is inequality nothing more than a statistical construct?

The third issue is the particular significance of China, does have a continental economy, which still maintains its independence from the market in capital, and which has seen unprecedented and sustained growth over the recent period of globalisation. China's actual policies are very remote from the ideals which the IMF sold to the rest of the world from 1982 onwards, maintaining strict capital controls and rejecting the 'shock therapy' which devastated the Economies in Transition (among which, we should note, the IMF does not include China). Is China proof of the success of globalisation – or is it proof of the opposite? And how should it be treated in the statistics to give an accurate picture of what is really going on?

1.6 THE USE AND MISUSE OF AVERAGES

Statistical agencies are geared up to collect data on a national basis. Access to data on world income distribution which cross country boundaries are virtually impossible to come by, and awareness of this fact is only now beginning to re-allocate some fairly small resources to this question.

However some simple arithmetic show that there are basic limits within which actual income in a country can range above or below national averages, and this becomes clear once we start to think about the most basic issue socially, namely, how many rich people, and how many poor people, can logically exist within a given territory, given its average income?

Advanced third world countries?

First, as regards the general scale of inequality – that is, the relation between the number of poor people in the world and the number of rich people in the world – it is statistically impossible that differences between averages, on the scale we see in the world today, can co-exist with declining, or even low, levels of inequality. The views expressed below in *The Economist* on June 26th 2003 represent, frankly, wishful thinking.

> Far from rising, global inequality has actually been falling substantially. Not when measured as the gap between the very richest and the very poorest. Nor when measured, as has until recently been the rather odd norm, as the difference between the average incomes of each country, regardless of population (thus counting Chad and China as if they were of equal size). But if it is measured in the way which is normal within countries, as the distribution of individual incomes, it has narrowed considerably.

I agree that inequality, properly presented, does not reduce to comparing average income in one country with average income in another. But this is not the same as saying that geography counts for nothing. At the beginning of this chapter I did not compare one country with another. I compared the whole of one part of the world with the whole of the other part.

All I did was to divide the world in two, using the IMF's own classification. If world income is a cake, then before this phase of globalisation began, 82 per cent of the people in the world got 29 per cent of this cake to share among themselves. When it had finished, 84 per cent of them had to share 19 per cent of it among themselves. To present this as anything other than an increase in inequality is an act of statistical deception.

To fix ideas, I will define 'poor' simply to mean living at or about an income equal to the average of the 'rest of the world' – that is, \$3 per day in 1995 dollars.[15] It is then arithmetically impossible for the number of poor people to decrease as long as average inequality is rising. This is such a basic statistical fact that faced with its persistent denial we can only conclude that the faculty of reason is being replaced by something else.

Let us first suppose for the sake of argument that individual incomes within countries are in fact growing closer today – a questionable result in the light of figures cited by Robinson in this book. In that case, if average incomes in the two parts of the world are growing apart, the divergence between incomes of people living in them must also be diverging. Thus, consider the extreme case where everyone in each part of the world earns the same income. In that case, country averages would be a perfect guide to personal inequality. Every individual in each country would be earning exactly the same. Every one of the 4,288 million people in the 'rest of the world' would be earning 23 times less than every one of the 833 million people in the 'Advanced Countries' – just over twice the differential that existed at the beginning of globalisation.

Thus if, as the *Economist* suggests, incomes within each part of the world are becoming more equal, then this can only mean, since the average income in the two parts of the world have diverged, that individual incomes in these two parts of the world have also diverged. Nothing else is statistically possible.

Let us look at an alternative possibility. Suppose instead that inequality within countries is large, or getting larger, compared with the differences in average income. But this too, given the averages reported above, would have to mean that the great majority of the world's population is at least relatively poor, and growing poorer. Suppose, for example, that the entire average GDP of $1,160 in the 'rest of the world' in the year 2000 was appropriated by a rich class securing the same income as the average in the advanced countries – quite a modest idea, really. Their income would then be twenty-three times greater than the average in the third world. But this entire class has to fit inside the share of the cake which, in 2000, took up 19 per cent of the whole world's income. This places an absolute limit on the size of this class: it cannot possibly make up more than one-twenty-third of the population. For it to do so, the average for the whole of the 'rest of the world' would have to rise above $1,160 or, to put it in its most direct form, the share of the cake would have to get bigger.

Moreover, even in that extreme case, the remaining population would have to earn nothing at all. Either, therefore, this rich class must be poorer than even the average for the advanced countries, or it must be very small. There is a simple trade-off from which the *Economist's* anonymous writer must choose. *Either* this class is not really very rich, or it is not really very big. A class that is both rich and big simply cannot exist, statistically, in a section of the world which contains four-fifths of its people and appropriates a fifth of its income.

It is technically possible – in a different world – to have a large number of people with high incomes, even though average incomes are very far apart. The arithmetical condition for this is that the number of people living in impoverished countries would have to be small compared with the world's population. In that case, we could see a small and desperately poor underclass, largely confined to marginal parts of the globe, against a background of generally increasing wealth.

Since the existence of poor people is hard to deny, this is the way that their numbers are usually presented. This is, in essence, the analytical framework of the 'Third Way'. This is articulated as if the political problems of globalisation were confined to relatively small and manageable layers of socially-excluded and marginalized individuals. Globalisation is treated as if the number of people living in a each slice of the cake was proportional to the size of the slice. The problem of liberal democracy is then to ensure that this small number of marginalized individuals are included in a general process of progress.

However, the great majority of the world live in the small slice, and moreover the proportion is getting bigger. The 80/20 vision of the Third Way breaks down statistically once we reckon with the fact that this 'marginalized' layer consists of most people in the world. Actually, in terms of population, the world's 'marginal' people are those living in the advanced countries. The sheer number of people living in poor countries dictates, statistically, that the overwhelming majority of the world's people must also be poor, and any attempt to avoid this basic arithmetic fact is either wishful sophistry or wilful ignorance. In a world whose majority is poor, the marginals are the rich. This is why they have no option but to sustain their wealth by directly political domination. The political 'integration' of a majority by a minority is not a caring liberal democracy: it is a dictatorship with a conscience.

Third world advanced countries?

Only one other statistical possibility works in the opposite direction. This has been suggested by Paul Krugman. It corresponds politically to the outlook of Negri and Hardt,[16] who seek to demonstrate, in essence, an unmediated identify of political interest between the poor of the first world and the mass of the third world. It could be that the high average incomes of the advanced countries are caused by the distillation of a super-rich class in the advanced countries, which raises the average although the majority in these countries lives in third-world conditions. It is beyond the scope of this chapter to investigate this empirically.

However, we must note, first, that it could provide no comfort to pro-globalisers, since in this case political instability would be all the worse: the number of relatively poor people in the world would be understated by the averages rather than overstated. Second, however, it suggests that no significant section of the working classes of the advanced countries should have much interest in supporting their own imperialism's activities. It is difficult to reconcile this with the level of support which, in the past, the working class organisations of the advanced countries have given to the wars of conquest of their own nations. And finally, it is only possible arithmetically if inequality within the advanced countries were substantially greater than within the rest of the world. This is empirically a hard thesis to sustain.

1.7 WHAT DOES MONEY BUY? PURCHASING POWER, PAYING POWER, AND GROWTH

The figures used in this chapter were calculated, as has been said, by converting national GDPs into dollars at current exchange rates. Anyone with access to the Internet, incidentally, can verify them, since the IMF distributes them free of charge.

This method, widely used by the IMF until the early 1990s, present a different picture from those generally now used when institutions attempt to assess the results of globalisation. In short, the globalisers have shifted the goalposts. Output is now usually presented for the purpose of comparing country outputs in Purchasing Power Parity (PPP) dollars.

A PPP dollar is a fictitious currency unit which is supposed to represent the same quantity of goods in every place, at every time. No-one in the world actually consumes what a PPP dollar buys. It is constructed by calculating an 'ideal' basket of goods representing the average consumption of an imaginary world citizen.

Such a citizen does not exist, because patterns of consumption are widely different in different parts of the world. Indeed, as we shall see, under globalisation consumption patterns have themselves diverged. Moreover PPP dollars do not exist, in a very fundamental sense: they cannot be used to pay bills or settle debts. A PPP dollar is not means of payment. It is not even a unit of account which can be used in international settlements like the European 'Green Pound'. In particular, debtor countries cannot use them to pay their creditors, and if they could, the world's debt would be reduced by three quarters.

There is no single consistent PPP measure, and it is generally acknowledged that such a measure is theoretically impossible. In particular, a PPP measure which is good for making comparisons between country price levels, is bad at estimating aggregate output, and vice versa.[17] Worse still a single measure of output which is valid both for comparisons in time and in space is not possible, and one can therefore either compare countries' absolute levels using one PPP measure, or their growth rates using another – but not both, with the same measure. In short, it is theoretically impossible for a single PPP measure to serve as an indicator of both divergence and stagnation. For this reason the OECD took a decision as early as 1990 to disseminate two different sets of PPP measures:

> In 1989 UNSTAT, the OECD and Eurostat jointly convened an expert meeting to discuss the aggregation methods used in the calculation of PPPs and real expenditures. The experts recognised that the results of such calculations are used for many different purposes and that *there is no one method of aggregation which can be considered satisfactory for all these purposes*. They recommended the calculation and dissemination of two sets of results: one set to be aggregated using the EKS method, the other to be aggregated using the GK method [emphasis in original][18]

This does not prevent most agencies, particularly in publications aimed at the general public, writing as if there were only one such measure or, worse, choosing the particular measure which proves the point they wish to make and then speaking authoritatively as if it were the only one available. This extends even to statistical authorities, as the OECD acerbically comments:

> Both Eurostat and the OECD have accepted the experts recommendations in principle, but there is a practical difficulty of particular importance to Eurostat. The results for Community countries are used for administrative purposes as well as for economic analysis. For this reason, Eurostat requires that only one set of results be recognised as the official results for the Community.

That is, although it is theoretically ridiculous, politically the Europeans will do it anyway. So much for the enlightenment.

Globalisation and the movement of world prices

Let us for the sake of argument set aside for now all the above difficulties, and simply compare the results of measuring output in current dollars and in PPPs. Table 6 shows, for the bottom and top group of countries, the ratio of PPP output to dollar output in 1999 after adjusting world totals to be the same.

It can be seen that the output of the advanced countries is estimated as systematically lower, and the output of the third world systematically higher, in PPPs than in dollars. The effect is huge: for example, when Sri Lanka at the bottom of the table is compared with Japan at the top, it will be treated as seven times less unequal in PPPs than in current exchange dollars. To put it another way, when Sri Lanka is paying its debts it will be allowed seven times less purchasing power per dollar than when it puts its case against structural adjustment.

Table 6: Ratio of PPP and real dollar GDP, highest and lowest in 1999

Country	Ratio of PPP GDP to real dollar GDP at market exchange rates	Country	Ratio of PPP GDP to real dollar GDP at market exchange rates
Japan	0.62	Bangladesh	2.39
Switzerland	0.63	Jordan	2.44
Denmark	0.69	Colombia	2.48
Norway	0.73	Philippines	2.50
Sweden	0.75	Iran	2.91
Germany	0.78	Kenya	3.09
Austria	0.79	Thailand	3.22
Finland	0.80	Ghana	3.23
Ireland	0.81	Bulgaria	3.26
United Kingdom	0.83	Ethiopia	3.97
Belgium	0.85	Nigeria	4.15
France	0.86	India	4.23
Netherlands	0.86	China	4.38
United States	0.87	Pakistan	4.70
Italy	0.93	Indonesia	4.81
Israel	0.95	Syria	7.11
Slovenia	1.01	Sri Lanka	7.13

To some degree (though, because of theoretical imperfections in the PPP method, not entirely), a country whose PPP output is high compared with its dollar output will have lower prices.

Hence if a country's domestic products are cheap in comparison with their price in the USA, the international agencies will record it as producing more than it can actually raise by selling its produce in the world market; in some case a great deal more. For example as can be seen from table 6, in the IMF or World Bank's estimates of the performance of China and India, they will multiply China's actual money output by 4.38 and India's by 4.24.

But the IMF only does this when it wishes to prove that India is doing well as a result of globalisation, not when it enquires whether it can pay its bills. That is, the IMF uses ordinary dollars to assess whether a country has complied with its policies, and PPPs to assess whether they worked.

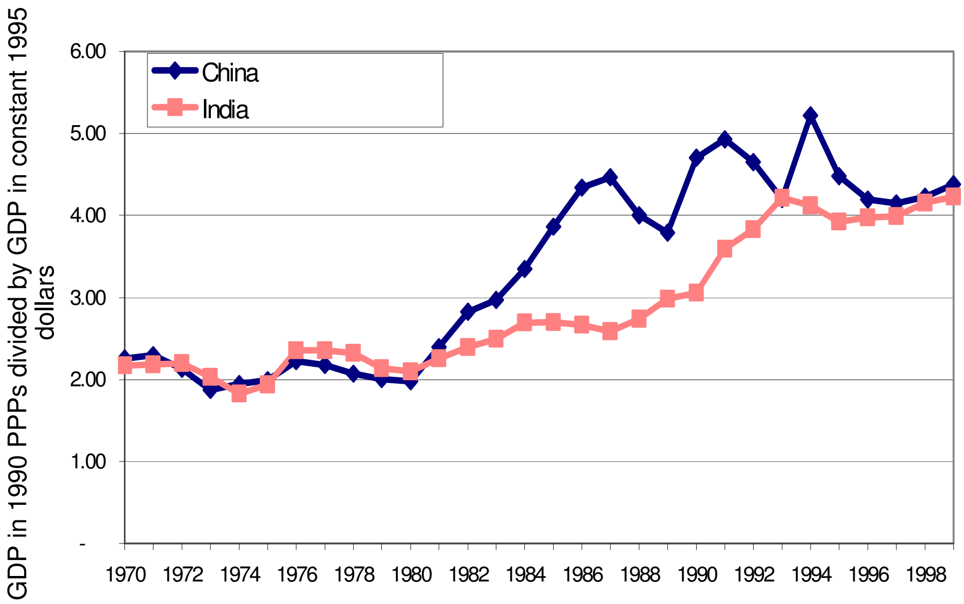
Purchasing Power Parity and the contribution of India

The cases which illustrate the problem most clearly are those of India and China, above all India which, unlike China, is yet to undergo a prolonged period of sustained growth, as Jayati Ghosh makes clear in her chapter in this book. There is no doubt that China has undergone a real and sustained growth, which I assess in the next section. But China does not rightfully belong in the category of 'globalised' countries. The statistical effect of PPP measurements is to make it appear as if China and India were engaged in an identical process, and to use this falsely-inflated growth as 'proof' of globalisation's success.

The GDP of India measured in 1996 PPPs was $1,783 billion but in 1990 current-exchange-rate dollars it was $441.7 billion, because in India a dollar buys over four times as much as in the USA, as already shown in table 6. Thus whereas the combined national output of India and China in 1999 was worth $1,428 billion at current exchange rates, the IMF reports it as $5,932 billion dollars, nearly as much as the output of Europe which in PPP terms was $7,203 billion dollars.

China and India have a specific statistical impact because since globalisation began, their Purchasing Power Parity has increased exceptionally rapidly. Chart 4 shows the ratio of GDP, for China and India, measured in PPPs and constant US dollars at current market exchange rates. It can be seen that the GDP of these two countries, measured in PPPs, has effectively been multiplied by 250 per cent since the present phase of globalisation began.

Chart 4: ratio of real dollar and PPP dollar measures of GDP, for China and India



This rise in the PPP dollar is clearly itself a specific effect of globalisation. The capacity of these nations to appropriate wealth in the world market has fallen precipitately, because local prices have fallen much faster than US prices. It is moreover unique to the developing countries, not least India and China.

This has two profound implications. First, it means that globalisation has worsened the terms of trade. An Asian producer must work on average over four times longer to acquire US goods than a US producer, and seven times more than a Japanese producer to acquire Japanese goods. Developing countries, particularly Asian countries, are far less equipped to acquire on the market the produce of the advanced countries – which are precisely what they need in order to invest competitively, and moreover are precisely the goods which the IMF structural adjustment plans oblige them to buy. A central feature of these plans is the developing countries are supposed to concentrate on exporting labour-intensive, primary produce. The substantial extra supply of these goods created has played a major role in producing a catastrophic fall in commodity prices, vitiating the whole strategy.

Although the divergence of PPP and current-exchange measures is universal throughout the non-advanced countries, its statistical effect on aggregates is heavily concentrated on China and India because of their size. If these two large Asian countries are removed from the calculation, the divergence which is evident in real dollar terms reappears even in PPP terms. As Table 7 shows divergence, measured in PPP terms, appears over the period of globalisation to have fallen from 7.4 to 6.9. But if Asia is removed from the calculation, this ratio has risen from 3.5 to 5.1 during the period of globalisation, having remained virtually constant in the preceding four decades.

Table 7: Growth of GDP per capita with and without Asia, in PPP dollars

GDP per capita in 1990 Purchasing Power Parity dollars	1950	1960	1970	1980	1990	1999
Rest of the World	$845	$1,147	$1,464	$1,936	$2,341	$3,124
Rest of world without Asia	$1,712	$2,244	$3,060	$4,059	$3,875	$4,239
Advanced or advancing countries	$5,480	$7,569	$11,190	$14,402	$18,190	$21,539
Divergence ratio with Asia included	6.5	6.6	7.6	7.4	7.8	6.9
Divergence ratio with Asia excluded	3.2	3.4	3.7	3.5	4.7	5.1

The law of two prices

Actually, the very fact that GDP measured in real dollars is diverging from GDP measured in PPPs signifies that something new is going on. Thirty years ago world output was rising unambiguously, and now it is not. The most definite post-modern statement that can be made, by anyone who wishes to argue that globalisation works, is that this view is supported only if one measures output in one particular way.

The divergence of PPP measures of income from a simple monetary measure shows something else: it shows that globalisation has produced a divergence not just in incomes but in *prices*. Paradoxically globalisation, which was supposed to act to bring about a harmonised world market, is creating a dual system of world prices. In particular we can summarise its overall effect quite simply: it has driven apart the cost of *wages* and *capital*. We have, in effect, a global cost of capital and a local cost of labour.

It is precisely because of this bipolar price system that a single PPP measure cannot convey what is really going on. Moreover it is in any case nonsensical to argue that the key process in the world is the formation of an integrated world market, and then study it by concentrating on local differences.

What we must really study is the *combined* effect of price differentiation and output differentiation, and understand that they are not two separate phenomena but completely interdependent. To be absolutely precise, price differentiation is a *consequence* of income differentiation and is part of the proof that it is happening. If incomes really were converging, then why on earth should prices be diverging? It makes no sense at all. The actual outcome, statistically, of measuring output in PPPs is that the reality – income divergence in money terms – produces an effect – price differentiation – which is then used to hide the original cause, namely, the income differentiation.

It is really not hard to see why the two measures of output are diverging: it is because low incomes are possible only on the basis of low wages. Low wages exist both because people consume less, and because the products that make up the wage-basket (so-called 'non-traded goods') are themselves cheaper. What the PPP measure actually does, reduced to its essence, is to treat all wage-baskets as if they were equal, even though they cost different amounts.

This might be valid were it not for the fact that there *is* a world market and a world prices for the produce of the advanced countries – that is, high-tech investment goods. The divergence of world prices is, primarily, a divergence of country wages from global capital goods. The growing gap between PPP and monetary measures of output is merely a reflection of this price divergence: a country whose wages are low, is artificially accounted as having a high output, by multiplying these wages by the price differential for wage products in the two parts of the world.

There are numerous reasons to suppose that this obscures the real process. Most importantly, it mixes up the direction of causality. In a commodified world. people do not make money because they live well; they live well because they make money. The first thing we must understand, if we want to know whether a country can or cannot extract itself from poverty, is *how much money it has at its disposal with which to do it*.

This is particularly important since a country's income is not just used to live on, but to invest and grow. It is a fund from which all expenditures must be met, and the crucial factor is the cost, not of wage-goods, but of investment goods – which are, generally, world goods produced in the advanced countries and which cost advanced-country prices.

How can a poor country escape poverty? It must grow faster than an advanced country. To do this it must invest. It then has two choices: it may produce investment goods itself, or it may buy them on world markets. But investment goods are precisely that part of the 'world basket' which are expensive to produce locally, because they involve technology, and technology is what costs money. If, therefore, a country produces investment goods locally, it will not be able to use the advantages of cheap local wage-goods or even cheap local labour to anything like the extent it can with consumer goods, because technologically sophisticated processes command high incomes.[19] If on the other hand it purchases investment goods on world markets – the fate allotted it in any case by the IMF policies – then it will pay, not local but global prices. It will pay, in fact, the *same* amount of money as must be paid by its competitors in the advanced countries.

The difference between PPP and current-exchange measures of income boils down to this: the world is divided and there is no single, theoretically consistent measure of output volume which is valid for both parts of the world. We must choose whether to measure economic performance on the basis of the price structure of the advanced and dominant part of the world or that of the the dominated, dependent part of the world..

We wish to compare the growth prospects of the two parts of the world – advanced and non-advanced. The advanced countries are characterised above all by their near-total monopoly of technology – that is, of the means to make investment goods. The remainder can close the gap only by acquiring this technology, embedded in investment goods which it is the special privilege of the advanced countries to sell into the world market. If we want to find out whether a poor country can cease being poor, we must find out whether it can buy the advanced capital goods which it needs in order to raise its rate of productivity growth above that of the global North. These goods are generally made in the advanced countries, or moreover form a proportionately larger part of their annual expenditure. It is therefore the price structure of the *advanced countries themselves* which must be used as the basis of comparison, and that is why we have chosen to study world output and inequality in terms of the most dominant and largest advanced country – the USA.[20]

In the latter case the determining factor which decides whether much a country may catch up with or even hold its own against the technologically advanced nations, is its ability to purchase this technology on the world market; that is, the rate at which its own produce exchanges for the products of the advanced countries. GDP in real dollars measures this capacity: the ability to acquire the means to compete globally, in global markets. The figures above show that, above all, globalisation is destroying the poorer nations' capacity to grow. It is steadily reducing, or at best holding constant, their capacity to purchase what they need to stop being poor. It is inevitable, unless countervailing forces are brought into play, that this will work its way through into declining relative incomes and, as long as general stagnation persists, declining absolute incomes and declining standards of living.

1.8 THE STATISTICAL SIGNIFICANCE OF CHINA

Bodies which have an interest in beating the drum for globalisation tend to conceal China's specific role by including it in aggregate figures, but omitting it as an individual entity. The IMF, for example, simply includes it statistically in the region of 'Asia' – yet it places the central Asian republics in 'Transcaucasus and Central Asia'. Notably also, it does not classify China as 'transitional'.

In some cases the presentation of China's data is downright tendentious. Our anonymous *Economist* writer says

> countries in Asia have actually been narrowing the gap substantially: there, excluding already-developed Japan, in 1950-2001 income per head increased fivefold. In the early decades, Asian growth could be dismissed as exceptional, given that it was limited mainly to the city states of Hong Kong and Singapore, and two politically anomalous countries, Taiwan and South Korea. But since 1980, not only has growth spread to South-East Asia but it has also accelerated in the world's most populous countries, China and India. Given that Asia as a whole is home to well over half of the world's people, such progress can no longer be dismissed.

It is true that Asia should not be dismissed. But if we leave out China, then even in PPPs, the measure applied by the *Economist's* author, income per head in Asia rose by 205 per cent, a considerably slower rate than 'fivefold' and, in fact, equivalent to a rather pedestrian annual growth rate of 2.25 per cent, somewhat less than the world average over the same period.

The effect of China on the 'rest of the world' category is equally salutary. Table 5a shows the annual growth rates of GDP per capita of the advanced regions, and of the rest of the world with and without China.[21]

Table 5a: Growth of GDP per capita with and without China

Ten-year total growth of GDP per capita in constant 1995 dollars	1970-80	1980-90	1990-2000
Rest of World	35.4%	-19.8%	-14.5%
Rest of World without China	32.6%	-20.2%	-25.1%

Without China, the 'rest of the world' was declining almost twice as fast. The statistical impact of this fast growth of China is most marked in the 1990s. This highlights the problem with another tendency in the literature, which is to link China and India together as if they were part of a common 'Asian miracle'. But as table 5b shows, from 1990 onwards China's growth began to outstrip that of India, in real dollar terms, beyond all recognition. Moreover the change in the performance of the economy of China is of an entirely different order of magnitude. When an economy doubles in size in a decade, and above all when it contains between a quarter and a fifth of the world's people, it does not merely make it a 'bigger' economy but transforms world politics.

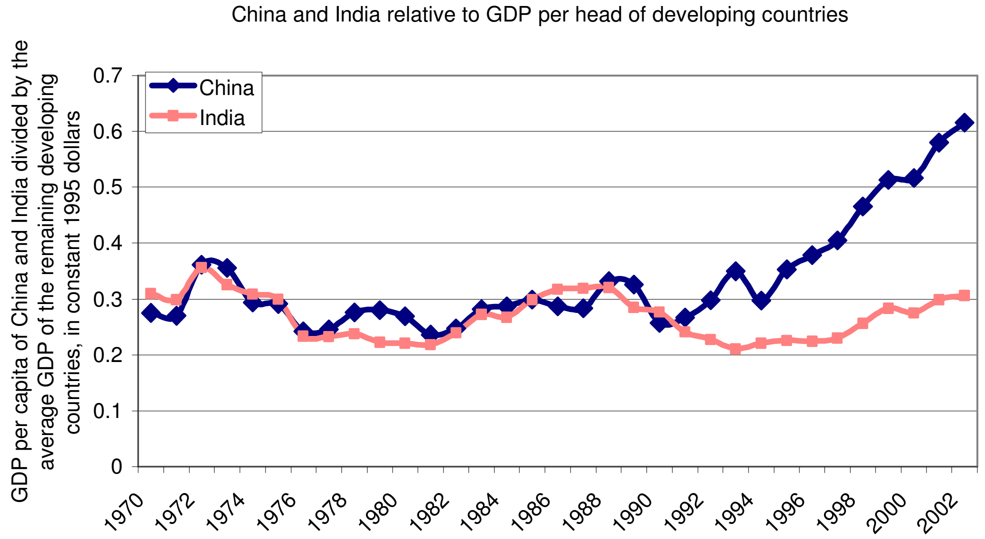
Table 5b: Growth of GDP per capita of China and India

Ten-year total growth of GDP per capita in constant 1995 dollars	1970-80	1980-90	1990-2000
China	55.0%	-26.7%	103.4%
India	13.0%	-4.1%	1.1%

By 2010 China would, if current growth trends were sustained, produce an output worth more in dollars than Japan's, and by 2023 it would produce more than

Europe. In PPP terms it is widely reported that its GDP will equal America's by 2015 and it is already has the second largest output in the world. An implication not lost on strategic planners is that China has the capability in our lifetimes to become a military rival of the USA, which completely change the world relation of forces. It would for example make nonsense of the idea that the next century will be an American one.

Chart 2: GDP per head of China and India, relative to GDP per head of the other developing countries

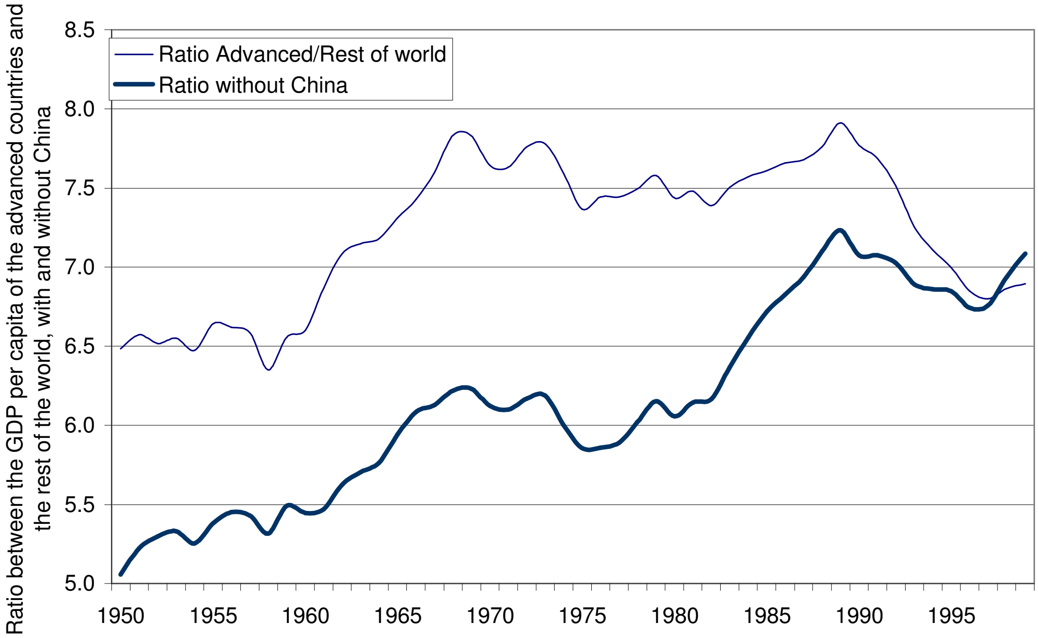


This process has already transformed China's relation to the developing world, and thereby the developing world itself, as Chart 2 shows. This chart plots the GDP per head of China and India, relative to the average of all the other developing countries excluding China and India. In 1990, both China and India were well below the average. But by 2000, China's GDP per head placed it with striking distance of the average.

The effect of this on the growth of inequality between the developing and advanced countries is so striking that it clearly shows up even in PPP dollars. If China is included in the numerator and denominator, inequality measured in this way (in PPP dollars) has hardly risen at all since 1950. But if China is excluded, there is a clear rising trend which moreover accelerated sharply in 1975 and after a brief fall, resumed its upward trend in 1995.

Chart 3 shows the inequality ratio between the advanced countries and the rest of the world, with and without China, measured in PPPs

Chart 3: Inequality with and without China, measured in PPPs



Is China really growing?

Faced with the above facts, a considerable discussion has been going on about what the GDP of China actually is. In and of itself, this reflects the very fact that China's economy is far from simply capitalist; they centre on such facts that, for example, there is no reliable expenditure measure of production in China because so much of it is not for money. On an extreme view, China's statistics therefore distort its output so much that most of its recorded growth is a fake.

Very well, consider the extreme opposite view, that in reality, China's income growth rate is little more than 2 per cent per year. But the IMF accepts China's statistics more or less at face value, and the conclusions which the IMF draws about world output depend on this assumption. If the value recorded by Chinese statisticians for China's output is false, then most of the figures recorded by the IMF for the world are themselves false, and with them most of the claims of the globalisers in which, implicitly or explicitly, China's success is included in the success of globalisation.

For this reason, in the last part of this chapter, we will study the dependent world as it should be studied, independent of China.

1.9 THE NEW REGIONALISM AND THE POLITICAL GEOGRAPHY OF DIVERGENCE

Divergence is not uniform. The advanced countries have moved away from the developing countries, the advanced countries have divided among themselves and, not least, the countries in transition have undergone a particularly sharp divergence which dates very precisely from the moment of the dissolution of the USSR. However within regions the process is more variable. Is divergence is nothing more than a geographical process, in which some regions have done well and others have not? This is certainly one aspect of divergence. Thus, for example, South-East Asia has grown substantially faster than Sub-Saharan Africa.

Nonetheless, the evidence is clear that the separation of the developing from the advanced countries impacts on every region and overrides regional differentiation. There is thus no evidence that any regional group of developing countries is 'pulling away from the pack', with the specific exception of the group of 'Newly Industrialised Asian Countries' (NIACs) – whose population, it should not be forgotten, is in total smaller than most major European countries.

So what processes of divergence and differentiation are actually at work? In order to go any deeper, some means of investigation is needed. When the IMF or World Bank divides the world into the 'advanced countries' and the rest, they employ a clear prior concept of what the advanced countries are, using a classification that does not itself presuppose wealth or poverty. The starting point is a form of economic organisation; a manner in which these countries arrange to extract surplus from the world's resources. The question of whether they are rich or poor is an outcome, an object of enquiry, not an initial part of the definition.

If we have no prior classification in mind, we are obliged to begin from what the data itself provides. We have to study the distribution of wealthy and poor as such and ask whether the evidence suggests that the wealthy are becoming more wealthy, relative to the poor. There are then two difficulties.

The first problem, dealt with earlier, is that data is almost all available on the basis of countries, rather than peoples. We do not know the income distribution within each country and so it is difficult to study income distribution completely independent of geography. Indeed it may not be right to do so, if it turns out that nations and national states, despite globalisation, remain a fundamental determinant the path of economic development which a country and its people can follow. Nevertheless, since this is one of the things we are trying to ascertain, we cannot begin by supposing it.

Studies have slowly begun to emerge which attempt to correct for this. The problem is that their starting point is the study of *poverty* as such and so the measure they concern themselves with is personal income. But as we have already pointed out, personal income is only one part of the total money wealth which a given country acquires on the world market. It is a caused factor rather than a causal factor, and does not allow us to get to the bottom of the real process of divergence. In point of fact the real figure we are after is the productivity of labour; it is the wealth which is generated by the activity of the country.

As most economists recognise, GDP per capita is actually a proxy for this magnitude. What should be measured, if the figures were available, is the distribution of wealth-creating capacity or, to be precise, value-creating capacity. This would yield a very different distribution than personal income since badly-paid people in a poor country are often very productive of wealth, as is clear from the large profits of multinationals that employ this labour.

The second problem is how to measure divergence in any case. What should be compared with what? When we had made a prior separation of the world into developed and advancing countries we could simply compare the income of one group with the income of another group. But now there are no 'natural' groupings to compare. Here we combine three procedures.

First, we can try to ascertain the *geographical* distribution of income. Relatively well-defined regions of the world exist such as Latin America, Africa, and so on. Are they diverging from each other, and are incomes diverging within them?

Second, since we already know that the advanced countries and the developing countries follow a very different path, we will confuse what we wish to study if we mix them up. We should therefore study geographical relations in, and between, the non-advanced countries.

Third, in order to see what is going on independent of geography, the simplest procedure is to divide the population into groups of equal size, and rank them. The commonest summary measure is quintiles: groups of twenty per cent of the population, and this is what we will study.

In the absence of figures on this quantity we have to adopt the most neutral assumption, which is that on average, everyone in a country generates the same wealth. All quintiles in this section have been calculated on this basis.[22] The figures are very striking.

Table 8: Quintiles of GDP per capita of the non-advanced countries (without China) as a proportion of average GDP per capita

	1970	1975	1980	1985	1990	1995	2000	2001	2002
Bottom 20 %	0.27	0.01	0.23	0.30	0.25	0.19	0.20	0.21	0.22
Second 20 %	0.38	0.01	0.26	0.37	0.36	0.30	0.34	0.36	0.39
Third 20 %	0.42	0.01	0.46	0.45	0.40	0.34	0.36	0.39	0.42
Fourth 20 %	0.84	0.03	0.87	0.94	0.98	0.93	0.83	0.86	0.93
Top 20 %	3.10	0.08	3.17	2.94	3.02	3.25	3.28	3.19	3.05

Table 9: Quintiles of GDP per capita of the non-advanced countries, without China, in real dollars at current exchange rates

	1970	1975	1980	1985	1990	1995	2000	2001	2002
Bottom 20 %	$277	$396	$384	$323	$284	$239	$239	$234	$234

Second 20 %	$390	$451	$441	$392	$421	$376	$408	$402	$413
Third 20 %	$437	$597	$771	$476	$460	$423	$431	$431	$436
Fourth 20 %	$868	$1,104	$1,451	$999	$1,135	$1,167	$986	$956	$976
Top 20 %	$3,213	$3,471	$5,280	$3,127	$3,495	$4,074	$3,913	$3,567	$3,200
Average	$1,036	41,203	$1,665	$1,063	$1,157	$1,254	$1,194	$1,117	$1,050

Table 8 shows the ratio of each quintile to the average. Table 9 shows the per capita income of each quintile in real 1995 dollars, to fix ideas. It must be stressed, as throughout this chapter, that measures of divergence, which is a ratio of incomes, does not depend on any particular method of price deflation or indeed on using any particular currency. It depends only on measuring incomes in terms of their purchasing power on the world market, at current exchange rates.

If there was substantive divergence going on within the developing countries – either because an especially rich or an especially poor layer were distilling out – we should expect to see the lower ratios falling and the upper ratios rising. In fact over thirty years there has been almost no change at all, either in the relative position of any the developing country quintiles, or in their absolute level. In the ten years before the current phase of globalisation the top three quintiles, most notably the first, rose by around 60 percent – and then fell back. The fourth quintile has grown by little under 80 per cent.

Apart from that the picture is almost completely static. The ratio between the top quintile and the bottom – the most usual measure of divergence – was 11.6 in 1970, and 13.7 in 2002. The ratio between the fourth and bottom quintile rose from 3.1 to 4.2. These ratios should be contrasted with the relation between the average GDP of the advanced countries and the average GDP of the developed countries, already mentioned above, which rose from 8.4 to 23.3. The net effect of globalisation is to drive a gigantic wedge between the advanced countries as a whole and the developing countries as a whole, whilst at the same time producing almost zero net growth and almost no divergence between the developing countries.

Indeed, the stability of developing country GDP per capita is so remarkable that it is an accurate first approximation to say that developing country GDP is effectively constant, which implies that the advanced countries have become organised, through globalisation, to extract from the developing countries all the gains of productivity; that is, all excess profit above the bare minimum required simply to maintain the peoples of these countries, on average, at a fixed rate of value-appropriating capacity.

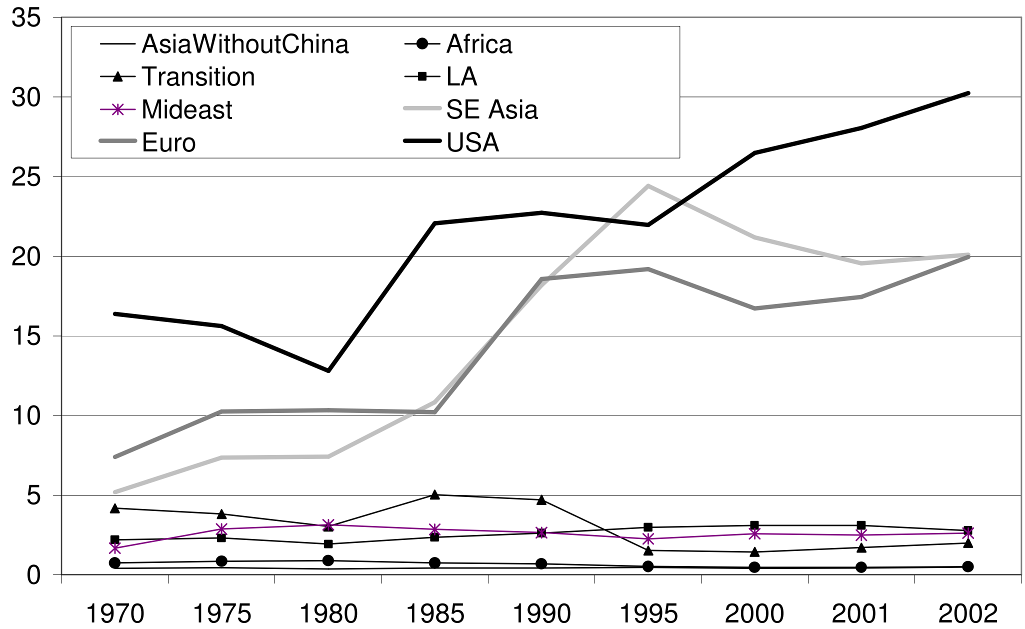
Table 10: Regional per capita incomes relative to the average per capita income of the rest of the world, without China

	1970	1975	1980	1985	1990	1995	2000	2001	2002
AsiaWithoutChina	0.4	0.5	0.4	0.4	0.4	0.5	0.4	0.4	0.5
Africa	0.7	0.9	0.9	0.7	0.7	0.5	0.5	0.5	0.5
Transition	4.2	3.8	3.0	5.0	4.7	1.5	1.4	1.7	2.0
LA	2.2	2.3	1.9	2.4	2.6	3.0	3.1	3.1	2.8

Mideast	1.7	2.9	3.1	2.9	2.7	2.3	2.6	2.5	2.6
Advanced SE Asia	5.2	7.4	7.4	10.8	18.2	24.4	21.2	19.6	20.1
Euro	7.4	10.3	10.3	10.2	18.6	19.2	16.7	17.5	20.0
USA	16.4	15.6	12.8	22.1	22.7	22.0	26.5	28.1	30.2

This enables us to create what is, in effect, an absolute standard of divergence; we may measure the GDP per capita of any country, group of countries, or group of people, as a proportion of average developing country GDP. This standard is a useful one to chart, therefore, two things: first of all the divergence between the principal geographical regions of the world and, second, within these geographical regions.

Chart 6: GDP per capita of the world's regions, as a proportion of GDP per capita of the developing countries without China



On the basis of this standard, we can take an overview of the principal regions of the world and including the advanced countries as a comparison. This is shown in table 10, and displayed also in chart 6.

The pattern is a very clear one and completely confirms the division of the world into two quite distinct blocs. The developing regions have, if anything, converged. The countries in transition were plunged into the ranks of the developing countries, which in turn have converged into two groups: Latin America, the Middle East and the countries in transition, with average incomes about three times that of the developing countries as a whole; and Asia and Africa, whose incomes have also converged and are about half that of the developing countries as a whole. The wealthiest and least wealthy group of developing countries (the Middle East and Asia) are separated by a factor of just over six.

In contrast the advanced countries pulled away sharply, in the course of the only real departure from an extremely static geopolitical division, namely, the very rapid growth of the small group of Newly-Industrialised Asian Countries (NIACS), included here in the category of advanced South-East Asia, along with Japan, New Zealand and Australia. Thus, in sum, only four countries have broken away from the group of developing countries, with a total population amounting to 82,000,000 in 2002.

Among the advanced countries, however, a new development set in during the late 1990s, namely the rapid relative growth of Advanced South-East Asia came to an abrupt halt and began to reverse, as did that of Europe. The USA pulled away from everyone. This polarisation of the advanced countries themselves highlights the onset of a intensified phase of rivalry *between* the principal geographical groups.

Do the regional aggregates conceal a differentiation within regions? Only here is the picture more mixed. To study it, we present the more usual measure, discussed above, of the ratio of each quintile's average income to the average of the first quintile.

Tables 11-15: ratio of quintile GDP to GDP of bottom quintile

Table 10: Latin America

	1970	1975	1980	1985	1990	1995	2000	2001	2002
Q2	1.26	1.44	1.28	1.79	2.38	1.77	2.01	1.73	1.65
Q3	1.42	1.54	1.32	1.93	3.15	2.23	2.29	1.87	1.72
Q4	2.60	2.77	2.94	2.49	3.17	2.61	3.43	3.35	2.36
Q5	5.24	3.84	3.95	3.39	3.72	3.45	4.33	4.20	4.22

Table 11: Middle East

	1970	1975	1980	1985	1990	1995	2000	2001	2002
Q2	1.24	1.87	2.28	1.28	1.19	1.25	1.06	1.14	1.15
Q3	1.61	2.66	2.95	1.53	1.30	1.58	1.19	1.31	1.43
Q4	2.24	3.48	4.37	1.81	2.10	2.93	2.27	1.64	2.25
Q5	5.20	8.71	17.82	6.37	5.02	7.78	6.79	6.48	6.94

Table 12: Countries in Transition

	1970	1975	1980	1985	1990	1995	2000	2001	2002
Q2	1.70	1.48	1.57	1.51	1.75	2.27	2.02	2.16	2.39
Q3	2.19	2.29	2.47	2.81	3.78	4.87	3.37	3.75	4.23
Q4	2.31	2.58	2.81	3.20	4.29	5.27	3.42	3.89	4.37
Q5	2.36	2.61	2.84	3.23	4.33	8.46	8.01	8.40	9.38

Table 13: Asia without China

	1970	1975	1980	1985	1990	1995	2000	2001	2002
Q2	1.46	1.06	1.16	1.18	1.42	1.15	1.23	1.27	1.25
Q3	1.47	1.06	1.16	1.18	1.42	1.15	1.23	1.29	1.26
Q4	1.54	1.23	1.73	1.37	1.53	1.52	1.31	1.34	1.35

Q5	2.74	2.16	3.13	2.39	3.16	4.16	2.65	2.50	2.67

Table 14: Africa

	1970	1975	1980	1985	1990	1995	2000	2001	2002
Q2	1.85	2.24	1.94	1.47	1.50	1.79	2.24	2.16	2.30
Q3	2.15	3.35	3.12	2.02	1.82	2.24	3.15	3.07	3.12
Q4	3.53	4.13	4.67	2.76	3.94	3.80	4.08	3.99	4.22
Q5	9.48	9.89	10.23	8.85	10.61	18.24	18.61	17.04	17.63

In only two cases is there significant divergence within the region: Africa, where the top 20 per cent has reached a GDP equal to 17.6 times that of the poorest; and the countries in transition – in fact, the former Soviet Union and former Eastern Europe.

Nation-building and nation-destruction

In the case of the countries in transition a point has to be made: a decisive impact of the globalisation process was a dramatic growth in divergence precisely in that situation where it was accompanied politically by the dissolution of a territorial state. Moreover the most rapid phase of divergence came after, not before, the territorial state was dissolved. The territorial state, whatever its other economic weaknesses, clearly constituted a substantial barrier to divergence.

Contrary to the assertion of the globalisation thesis, the real process was not that first the economic processes took shape, and then the state dissolved or lost its power but precisely the opposite: first the state was dissolved, then the economic processes took over.

It is in this light that we turn to the last and most interesting regional process, namely the situation in the Euro zone, shown in table 14. It is here, and only here, that we note a strong process of convergence: by 2002 a factor of no more than 1.77 separated the richest 20 per cent from the poorest 20 per cent. This is where a territorial state is in the process of formation.

This also directly contradictions the principal thesis of globalisation, which is that the state is powerless in the face of economic forces. In the case of Europe, the national states were of *insufficient size* to counter the enormous economic and political weight of the USA. Actually, what we see in Europe is not the dissolution of the power of the territorial state but a drive to constitute a new, continental, territorial state. This process is driven by an economic imperative, namely, to constitute itself as a more effective appropriator of the value created in the third world than the USA itself.

Table 14: Euro zone ratio of quintile GDP to GDP of bottom quintile

	1970	1975	1980	1985	1990	1995	2000	2001	2002
Q2	1.57	1.31	1.49	1.65	1.48	1.31	1.43	1.40	1.37
Q3	1.76	1.64	1.75	1.74	1.59	1.65	1.58	1.52	1.47
Q4	1.89	1.95	1.96	1.86	1.63	1.93	1.63	1.58	1.54

Q5	2.26	2.33	2.28	2.28	1.91	2.17	1.87	1.80	1.77

In summary , the post-globalisation world is neither the outcome of a teleological and unstoppable process of nation dissolution, nor is it the result of a conscious and organised plot hatched in the USA. It is an outcome of a contradiction driven by the market's inexorable tendency to geographical polarisation. The capitalist world order has shown itself unable to escape the requirement of a system of territorial states. But on the other hand , the existing system of territorial states is clearly absolutely inadequate for its requirements. The capitalists of the USA and of Europe are intervening in this process with a strategic vision, which is to reconstitute themselves as dominant continental powers capable of intervening on a world scale with political and military might to secure what the economic legacy of globalisation has failed to deliver.

At the same time within the non-advanced countries, economic convergence with each other, in contradiction to their divergence from the advanced countries, poses them a possibility, and a sharp choice. What is possible is mutual self-defence. The relation of forces, to be sure, is not adequate for reconstituting such bodies as the non-aligned movement. But the G21, and Mercosur, have both shown, that they have an unused capability. What prevents them using this capability is the capacity of the dominant powers to buy off and divide the elites of these countries, who have so far risen with the tide of globalisation and have no interest in confronting the dominant powers. It falls, therefore, to heir popular classes themselves to intervene politically on the world stage, recognising the fundamental identities of interest which are created by the polarisation of the world.

---

[1] The economic data used in this chapter were extracted from GDP data published by the IMF in its World Economic Outlook database, with data before 1992 on the countries in transition from the Groningen Growth and Development Centre, and population data from the US Bureau of the Census.

[2] Shares of world income measured in dollars at current exchange rates, The IMF defines the Advanced countries to be the 'Major Industrial Countries' (France, Germany, Italy, United Kingdom, Japan, the United States, and Canada) together with the remaining countries of the European Union, the 'Newly-Industrialised Asian Countries' or NIACS (Taiwan, Hong Kong, Singapore, and South Korea), and a group of six 'other countries' (Australia, Iceland, Israel, New Zealand, Norway, Switzerland). The 'rest of the world' comprises the IMF group of 'Developing' countries, the IMF group of 'Countries in Transition'. A group of around thirty countries that are classified by the Bureau of the Census, with a population estimated at 1,700,000, are not classified by the IMF. I have omitted from the comparisons the following countries for which a continuous data series from 1970, compiled on a comparable basis, could not be obtained: Bosnia, Bulgaria, Cambodia, Croatia, Czech Republic, Eritrea, Macedonia, Slovakia, Slovenia, Yemen.

[3] Total population is less than the total population of the world because of countries omitted for lack of usable data: see note 1 above.

[4] although the ratios are, of course, independent of currency units.

[5] with the exception of China, which I deal with later.

---

6 I have modified the IMF classification to reflect the regional character of these differences. 'South East Asia' comprises Japan and the NIACs. Europe is the European Union. North America is the United States plus Canada.

7 Although, since Europe and South East Asia were growing much faster than both the USA and the developing countries, the rest of the world was still falling behind the advanced countries as a whole.

8 Williamson, J. (2003). 'From Reform Agenda to Damaged Brand Name: a short history of the Washington Consensus and suggestions for what to do next' *Finance and Development*, IMF September 2003

9 "From Reform Agenda to Damaged Brand Name: a short history of the Washington Consensus and suggestions for what to do next" John Williamson, *Finance and Development*, IMF September 2003

10 France's objections to military intervention evaporated when it saw the opportunities arising from participating in the ouster of Haiti's Aristide.

11 By the term 'standard theory' I mean any approach ontologically constructed around the principle of general equilibrium. See Freeman, Alan (1999) "The Limits of Ricardian Value: Law, Contingency and Motion in Economics". Annual Conference of the Eastern Economic Association (EEA), March 1999, available on www.iwgvt.org

12 For an authoritative account of world divergence see Pritchett, L. (1997) 'Divergence, Big Time', *Journal of Economic Perspectives*, Summer 1997; available on http://econ.worldbank.org/files/375_wps1522.pdf .

13 A territorial state is by no means necessarily the same as a nation-state. The Austro-Hungarian and.Ottoman empires (not to mention the pre-capitalist empires) were territorial state forms, but they were not nation states. The nation state is a contradictory combination of territorial extent with ethnic descent, which accounts for the peculialy barbaric forms it has taken in the last two centuries.

14 It should be noted that the articles of the WTO quite specifically assign an exceptional role to free trade zones which effectively exempts them from its rules, a point that has eluded much academic globalisation theory. Article XXIV of the GATT proposes stringent conditions that a Free Trade Area must satisfy, but these are never applied. As of 1990, only four working parties (of a total of over fifty) could agree that any regional agreement satisfied Article XXIV, three of these before 1957. "The GATT's experience in testing FTAs (free Trade Areas) and customs unions against Article has not been very encouraging...It is not much of an exaggeration to say that GATT rules [on regional agreements] were largely a dead letter" (Hoekman, B and Michel Kostecki (1995) *The Political Economy of the World Trading System: from GATT to WTO*: Oxford: OUP, p219). See Freeman, A (1998) *Gatt and the World Trade Organisation*. Labour Focus Number 59, 1998. pp 74-93.

15 It might be thought that this definition begs the complex question of what 'poverty' means. Actually it sets the ceiling rather high. $3 per day is hardly higher than the UNCTAD definition of poverty ($2 per day). There is not an advanced country in the world that would not treat one of its own citizens, earning such an income, as near to destitution.

16 Negri, A and Hardt, M (2001), *Empire*, Harvard: Harvard University Press

17 Generally speaking two measures are in use: the Etelto-Köves-Schultz (EKS) method and the Geary-Khamis (GK) method. Neither is judged satisfactory, but EKS PPPs are considered better for comparing countries, and GK PPPs better for measuring aggregate output for a group of countries. Effectively, the GK method treats a group of countries as if they were a single country with a single pattern of expenditure while the EKS method affords more recognition to the difference in expenditure patterns in different countries.

18 OECD (1990) *Purchasing Power Parities and Real Expenditures*, Volume 2, Paris: OECD statistics directorate, p4

19 Not least, a country that fails to pay global rates for skilled technology will find its skilled workforce systematically evaporating to the places in the world which are content to pay for it, and whose objections to immigration mysteriously evaporate confronted with a skilled workforce whose education they never had to pay for.

20 This is thus the opposite of the neoclassical view which, instead of asking whether the poor countries can buy the produce of the rich countries, asks how easy it is for the rich countries to buy the produce of the poor. This is not a measure of economic capacity but of availability for plunder.

21 in 1995 constant dollars, the measure used in this chapter wherever an absolute estimate of 'real incomes' is given, unless explicitly stated to the contrary

[22] A spreadsheet which carries out the calculation, and which also carries the underlying data, can be obtained on www.iwgt.org/quintiles