ELSEVIER
www.elsevier.com/locate/worlddev

World Development Vol. 37, No. 1, pp. 1–10, 2009
© 2008 Elsevier Ltd. All rights reserved
0305-750X/$ - see front matter

doi:10.1016/j.worlddev.2008.06.008

International Redistribution of Income

FRANÇOIS BOURGUIGNON
Paris School of Economics, Paris, France

VICTORIA LEVIN
Harvard University, MA, USA

and

DAVID ROSENBLATT *
The World Bank, Washington, DC, USA

Summary. — How do international policies on aid, trade, and factor movements affect the international distribution of income? We calculate the impact by world decile of the actual level of aid flows and the effect on income of merchandise trade restrictions by high-income countries. We find that aid's distributional impact is equality enhancing, extremely small in terms of changes in inequality measures, but of some importance for the lowest decile of the distribution. We also find that some of this impact is counteracted by lost potential income in the lower deciles from merchandise trade barriers imposed by high-income countries.
© 2008 Elsevier Ltd. All rights reserved.

Key words — income inequality, international aid, protectionism, Africa

1. INTRODUCTION

There has been an active literature in the recent years on the world distribution of income. Some discussions focus on the "inter-country" distribution of income; that is, a distribution where countries are weighted equally, with China having the same weight as Barbados (for example, see Jones (1997)). Other studies, like Theil and Seale (1994), still treat countries as the unit of analysis, but weigh their influence on world income distribution by population size. In what follows, this method is said to refer to the "international" distribution of income. Still other papers, such as the latest *World Development Report* of the World Bank (World Bank, 2005a), combine estimates of within country inequality with those of international inequality to arrive at a more complete picture of income distribution, referred to as the "global" distribution of income.

In this paper,[1] we focus on the international distribution of income, abstracting from the admittedly critical element of within country inequality, since the purpose of our study does not allow us to take satisfactory account of the latter component of global inequality.[2] Practical reasons for overlooking within country inequality are twofold. First, the calculations are much simpler. In particular, we can abstain from the recent debate on whether weighted inequality measures should be based on household survey data or national accounts data (Bhalla, 2002; Sala-i-Martin, 2002 *versus* Milanovic, 2002; Ravallion, 2001). Furthermore, it has been shown that international inequality accounted for approximately 60% of overall inequality across the world's citizens as recently as 1992 (Bourguignon & Morrisson, 2002) and much more if one focuses on inequality dynamics rather than the absolute value of overall global inequality. The second reason to ignore within country inequality is that, in view of available data and methods for incidence analysis, there is practically no way to take into account the within country distributional impact of global redistribution mechanisms studied in this paper.

The objective of this paper is to analyze how direct transfers of aid as well as international policies that limit trade opportunities and possibly flows of labor and capital affect the international distribution of income. One of the channels is the allocation of foreign aid by high-income donors to developing country recipients. To the extent that official development assistance (ODA) is in grant form or can be made equivalent to pure grants, these transfers can be thought of, in the short run, as pure redistribution of global income.

Trade is another area of international policy we consider in this paper. A successful implementation of multilateral trade liberalization via the Doha Development Round would increase the world's and many countries' GDP, with interesting distributional consequences. While recognizing that most of the gains from multilateral trade liberalization would arise from the lowering of trade barriers between developing countries, we concentrate here on the redistribution effects of merchandise trade reform by high-income countries in order to compare these effects to those of ODA. Using World Bank's computable general equilibrium (CGE) Linkage Model (van der Mensbrugghe, 2005), we analyze the international redistribution of income that would result from fully liberalizing merchandise trade by high-income countries.

Although politicians sometimes conflate the concepts of aid and worker or profit remittances, the latter have a much more complicated impact on the welfare of both the sending and the host countries, and therefore present a singular problem in our empirical analysis of global redistribution. We discuss the nature of these difficulties while also presenting some recent results, which point to the scale of redistribution that occurs through these flows.

* Final revision accepted: June 9, 2008.

The paper first describes the actual level of international inequality in 2002, which we will treat as a baseline in our further analysis. Then, we provide a brief summary of the theoretical literature on the transfer problem, as it relates to redistribution via aid and other flows. Empirical sections that follow discuss the actual impact of aid flows and the potential impact of merchandise trade reform in high-income countries. Finally, there is a discussion of the conceptual and empirical difficulties involved in conducting a similar analysis for both worker and profit remittances. We conclude with a discussion of some tentative policy implications of the quantitative results.

2. THE INTERNATIONAL DISTRIBUTION OF INCOME

We used the World Bank's World Development Indicators (WDI) 2004 for data on population and gross national income (GNI) in PPP-adjusted dollars. [3] (See Appendix A for the list of countries.) The international distribution of income was obtained by assigning to every individual in the world the GNI per capita of the country he or she lives in. Figure 1 summarizes the results of that calculation for the international distribution of income in 2002 (noted "World" in the figure) and compares the results with traditional Lorenz curves for two major developing economies (Brazil and India) and one developed country (Sweden). In population-weighted terms, the poorest 40% of world population received just over 10% of world GNI, while the richest 20% commanded more than 60% of global national income. If we compare the two extremes, the ratio of the top vintile's GNI per capita to the bottom decile's GNI per capita is 37 to 1. The population-weighted Gini coefficient of international inequality in 2002 was 53.8, a value that is slightly below inequality in the most inegalitarian countries in the world, such as Nicaragua (55.1), Brazil (58.5) (World Bank, 2004a), or South Africa (58) (Hoogeveen & Ozler, 2004). [4] It is important to remember that, as described above, our measure of international inequality does not take into consideration within country inequality; hence, "true" global inequality is much higher than what we have described here. Thus, if the world were a single country, it would be one of the most unequal countries in the world.

As high as international inequality was in 2002, it appeared even greater in the two preceding decades, as measured by standard inequality indices. Bourguignon *et al.* (2004) analyzed the different conclusions reached by studies of trends in international inequality and economic divergence. If one takes an anonymous view to who is in the various deciles of the world distribution and weighs countries by their population size, then the impressive growth of populous states like China and India in the last two decades serves as a powerful equalizing force for the international distribution of income. However, if one tracks mobility of countries' citizens through time, the trend is less unambiguous since many countries, mostly in Africa, had negative growth rates during that period. This may be related to the difference observed between international and inter-country inequality. If one weighs countries equally, the impact of China's or India's growth, which has pulled millions of people out of poverty, is reduced to a single observation, and thus inter-country inequality is found to be rising not falling. [5] Thus, Bourguignon *et al.* (2004) concluded that there was no Pareto improvement in the international distribution of income in 1980–2002, and the conclusions about rising or falling international welfare and inequality are rooted more in value judgments than straight data.

3. FORMS OF INTERNATIONAL REDISTRIBUTION

Without a global government, redistribution policies across countries are decided in a decentralized manner by national governments, individual citizens, and firms. Redistribution of income takes place through a variety of channels, and there are numerous ways to account for the impact and the international policies that affect that redistribution. The simplest and most direct instrument of international income redistribution is Official Development Assistance (ODA). ODA flows are a part of a recipient country's total income, and one can simply deduct these flows from actual income to determine the static effect of aid as an instrument of income redistribution; similarly, since donor's contributions come from their national income, one would simply add the ODA provided by a donor back to the donor's national income to obtain the counterfactual. [6]

By treating ODA as simple income transfers, we ignore the effects it may have on donor and recipient economies. Even before considering distributional impacts within countries or externalities, such as knowledge transfer, that occur with

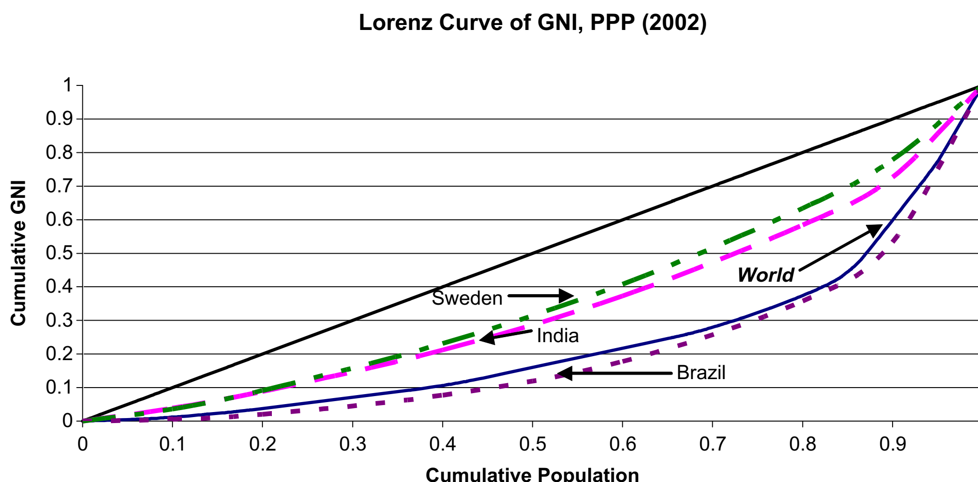

Figure 1. *2002 International distribution of GNI per capita (1995 PPP Dollars). Source: Authors' estimates based on data from World Bank (2004b). Note: Country-specific curves are smoothed curves based on deciles information.*

Download English Version:

https://daneshyari.com/en/article/992141

Download Persian Version:

https://daneshyari.com/article/992141

Daneshyari.com