

Wade-Wolf Debate on Global Inequality

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Description: What is happening to the global distribution of income in the present era? Have wealthy countries become wealthier and poorer countries even poorer? Or, is a more equitable distribution of wealth becoming evident with the advent of economic globalization?

Two political economists have taken opposing stands on this issue. Martin Wolf, Associate Editor and Chief Economics Commentator for the *Financial Times*, has argued that global inequality is in decline. Robert Wade, Professor of Political Economy and Development at the London School of Economics, has noted that the evidence to justify such a claim is sketchy at best, and that it is much more likely that incomes are polarizing.

In two provocative commentaries in the *Financial Times* (9 February 2000; 24 January 2001), Wolf attempted to refute the idea that greater levels of global economic integration were responsible for an increase in inequality during the recent period. He looked at studies that measured trends in population-weighted per capita incomes and found inequality between countries to have decreased since trade liberalization accelerated around the globe in 1980. Using this data, Wolf argued that poor countries such as the Democratic Republic of Congo, Sierra Leone, and Rwanda, had to "globalize" or become more open to trade and foreign direct investment in order to catch up to rich countries.

In April 2001, Robert Wade took up an invitation from *The Economist* magazine to write on the topic (28 April 2001). Looking at how incomes are distributed within countries as well as comparing how average incomes compare across countries, Wade showed that efforts to determine trends in global inequality necessarily choose between different ways of comparing incomes and measuring income distributions. To make incomes comparable across countries, for example, analysts must choose either to convert income per capita to US dollars at the market exchange rate, or use estimates of the equivalent purchasing power of different countries' currency (i.e., purchasing power parity estimates). They must also select a measure of income distribution from a range of alternatives, such as the ratio of the incomes of the richest to poorest deciles (10%) of the population, or a summary statistical measure such as the GINI coefficient. Additionally, researchers need to decide whether they should treat countries as equals or weight them by population. Wade detailed how different choices on these matters can lead analysts to very different conclusions about what is happening to world income distribution.

Of the various documented approaches Wade found the work of World Bank economists led by Branko Milanovic to be the most convincing. He agreed with Milanovic's finding that inequality was persistent or even growing. Wade cited several causes of increased inequality, including: (i) faster economic growth in the rich countries as a group than elsewhere; (ii) rapid population growth in poor and middle-income countries; (iii) slow economic growth across rural areas in poor countries; and (iv) rapidly widening income differences between urban China and rural dwellers across the Global South. In a commentary in the same issue (28 April 2001), *The Economist* praised Wade for focusing on this indicator of "political strain," but echoed Wolf's assertion that poor regions are victims of a lack of "globalization" (defined again as economic integration). Later in the year (*Financial Times*, 19 December 2001), Wolf continued to hold that population-weighted inequality among countries and households had probably fallen and that economic openness, where successful, had reduced inequality. He also argued that autonomous, state-driven economic policies were the main cause of stagnation. The stage was set for a showdown.

The gloves came off in February of the following year as Wade and Wolf engaged in rapid fire correspondence that was subsequently published in the UK political and cultural magazine *Prospect* (March 2002). Wade painted a disturbing picture of the current distribution, where 85 percent of global income is earned by 20 percent of the world's population and 60 percent of people make do with only 6 percent of the total. He also maintained that it would take decades of economic growth in the poorest countries, at a faster pace than growth in the rich world in order for the absolute gaps in living standards between the richest and poorest to be reduced. For his part, Wolf asserted that all numbers on inequality (and Milanovic's in particular) were problematic, and he took issue with a focus on resolving absolute gaps. On the latter point he claimed that economic growth is "inevitably" uneven and that to regret some countries doing better is to regret growth itself. Such remorse, Wolf argued, was tantamount to holding that everyone should remain equally poor.

Near the end of the debate, Wolf challenged Wade to accept three propositions: the desirability of accelerating growth, the necessity of liberalizing trade and investment, and the foolishness of self-sufficiency or economic autonomy as a development strategy. Wade responded by stating that he was in agreement with Wolf on each of these matters. His position, articulated near the end of their correspondence, was notable as it revealed the extent to which the "Wade-Wolf Debate" was really a quibble about specifics between two liberal international political economists. Wade was not a radical critic of growth itself (see Wade 2002), and Wolf's position was far from a call for rich countries to maximize their growth rates relative to the poorest. Even so, their disagreement had important policy implications. Wolf's stance on inequality was used by market fundamentalists to argue for an increased pace of liberalization around the world, while Wade's findings provided a rationale for social democrats to

push for a slower and more selective adoption of market openness and more effective policies for redistributing wealth. While debate over the direction of the trend is ongoing (see Milanovic 2005), much of the recent popular commentary on global inequality has focused on policy-makers' abilities (or inabilities) to do anything about it (Financial Times, 17 April 2006), and its domestic aspects (The Economist, 15 June 2006).

Work Cited: **Milanovic, Branko.** 2005. *Worlds apart: Measuring international and global inequality*. Princeton, NJ: Princeton University Press.

Wade, Robert Hunter. 2002. Globalisation, poverty and income distribution: Does the liberal argument hold?. Paper presented at the Reserve Bank of Australia Conference. (accessed 13 October 2006)