Global Distribution and Redistribution

François Bourguignon

Seventh Annual Conference in Global Economic Analysis
Washington D.C.
Keynote Address
June 17th, 2004

1) From joint work in progress with Victoria Levin and David Rosenblatt

Motivation

- Present level of global inequality of living standards and rate of absolute and relative world poverty are extremely high. Rising? Falling?

- What should be done?
  - Generate faster growth in poorer countries
  - "Redistribute" income or growth potential from rich to poor countries

- This paper: where do we stand on these various fronts?
  - Ambiguous progress at the bottom of the distribution
  - Ambiguous direction and size of redistribution
Outline

- The evolution of the international distribution over the last two decades
- Forms of international redistribution and their impact

1. The Evolution of the International Distribution of Income: Methodological issues

- **Global vs. International.** Problem of the consistency between household survey and National Accounts data

- This paper *ignores within-country inequality altogether*; all inhabitants of a country assigned that country’s **GNI per capita** (constant sample of 139 countries).

- Focusing on ‘international’ distribution also simplifies the treatment of redistribution issues.

- Exercise to be considered as **rough first order approximation**.

GNI in Constant 1995 PPP Dollars
Deciles (w/2 vintiles on top)

The international pattern of growth: 1980-2002 (Population weighted)

Annual Per Capita Income Growth, By Decile, 1980-2002
Gainers and losers at the bottom: the changing composition of the poorest decile

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Malawi</td>
<td>-0.10%</td>
</tr>
<tr>
<td>Guinea-Bissau</td>
<td>-0.19%</td>
</tr>
<tr>
<td>Mozambique</td>
<td>1.52%</td>
</tr>
<tr>
<td>Congo, Rep.</td>
<td>-0.07%</td>
</tr>
<tr>
<td>Chad</td>
<td>1.26%</td>
</tr>
<tr>
<td>Burundi</td>
<td>-0.94%</td>
</tr>
<tr>
<td>China</td>
<td>8.20%</td>
</tr>
<tr>
<td><strong>Pop-weighted average of decile</strong></td>
<td>7.86%</td>
</tr>
</tbody>
</table>

2002

- Same countries as above, except for China: 1.00%
- 26 more countries, of which:
  - 19 countries with negative growth (Tajikistan, Congo (DRC)…): -2.26%
  - 6 countries with positive growth (Nepal, Bangladesh,…): 1.77%
- **Pop-weighted average decile**: -0.76%

The international pattern of growth: 1980-2002 (equal weights)
2. Global redistribution

Redistribution = international income transfers (?)

- **Direct instrument**: Official Development Assistance (but, income or asset?)
- **Indirect instruments**: income equivalent of welfare changes due to changing barriers to flows of goods and services, capital, labor, and flows; growth externalities.

Global redistribution through ODA

"Grant-equivalent ODA" (including bilateral grants, concessional loans, and imputed multilateral contributions)

1) What the inter-national income distribution would have been without these ODA flows as compared with actual distribution? (Assumed egalitarian allocation of ODA within countries).
2) What the inter-national distribution would have been in 2002 without ODA, assuming some relationship between (average) ODA/GDP and the growth rate of GNI per capita over the last 10 years.
Global redistribution through ODA (income view, population weighted)

2002 & 1985

Incidence of Aid:
% change in per capita income by decile

Indirect global redistribution through market access

- Change in market access (protection) has differential welfare effects on global traders that can be made equivalent to a pure income effect.
- Unlike aid, the corresponding redistribution is not zero-sum.
- We analyze the effect of trade liberalization on distribution of world GNI using World Bank’s Linkage model, based on GTAP dataset.
  - 25 country groups
  - 1997 structure of the economy
  - Full merchandise trade reform
Incidence of trade reform or increased market access (population weighted)

Indirect redistribution through other international flows

- Difficult to evaluate without general equilibrium model of the type used for trade
- For instance, remittances alone cannot be considered as a good approximation of the international redistribution effect of migration. Other components include: costs for origin countries, the issue of the resident/citizen status of migrants, various types of externalities, ...
- Same argument for the evaluation of the redistribution effects of FDI
Conclusion

- No unambiguous increase of world social welfare in the last two decades
- Redistribution through ODA presently limited, and canceled out by restrictions to market access
- "Income" redistribution unlikely to achieve as much as redistribution of "growth potential" (as through the MDGs, for instance)