

Countries Aren't Flat, Let Alone the World: Why Globalizers Should Be Depressed by Regional Economics

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On September 17, 1787, the Federal Convention in Philadelphia completed the US Constitution. By 1789, government under the constitution had begun. Article Four required states to give “full faith and credit” to the public acts and court proceedings of other states. State governments were prohibited for discriminating against citizens of other states in favor of resident citizens, and freedom of movement was guaranteed.

Two hundred and twenty-some years later, Buffalo County in South Dakota has a per capita income of \$5,213.ⁱⁱ Marin County in California has a per capita income of about \$44,962.ⁱⁱⁱ This remaining income gap suggests a great deal about the potential impact of globalization on worldwide income disparities.

Back in 1789, the US government made the founding states (which did not yet include California or South Dakota, of course) into a free trade zone. Not only that, the Constitution made states into a free migration and free investment zone as well –the national microcosm of a perfectly globalized World. Since then, the federal government (alongside states) has poured money into programs designed to help poor regions do better. It has also forced legal standards designed to improve opportunities for all (such as desegregation).

Perhaps as a result there has been some convergence in incomes across states and counties --Robert Barro and Xavier Sala-i-Martin estimate the rate of income convergence between US states at about 2 percent per year between 1880-1998.^{iv} Nonetheless, per capita incomes between counties in the United States still vary more than tenfold.

In the younger countries of the Developing World –again, microcosms of globalization in trade, financial flows and migration -- inter-regional disparities are frequently much larger, and growing. A review of regional development by two World Bank economists, Raja Shankar and Anwar Shah, concluded that of the ten countries that they analyzed, nine out of ten had seen worsening inequality over the past few years. Shankar and Shah offer data on countries home to 3.8 billion people. Out of those, 3.1 billion, or 82 percent, live in countries seeing worsening regional income disparities.^v In China, for example, the ratio of income between richest and poorest provinces increased from 7.3 in 1989 to 12.5 in 1999. In Vietnam, the same figure was 11.6 in 1990 and increased to 24.7 by 1997. In Indonesia, per capita consumption in Jakarta was 4 times higher than in the province of East Nusa Tenggara in 1983, twenty years later the gap was tenfold.^{vi}

If ‘globalization at the country level’ based on limited barriers to the movement of goods, money and people seems to be so weakly related to rapid convergence in regional incomes, why should we expect any difference at the global level? Angus Maddison’s

data for 2003 suggests that the per capita income of the World's richest country (the US) is approximately 61 times that of the World's poorest –Burundi, where per capita incomes are around \$477 per year. If, tomorrow, we managed to pass a WTO deal that included open borders for goods, services, finance *and* labor, the intra-country regional results suggest that, optimistically in 100 year's time, we should still expect the poorest countries to have far less than one tenth the income of the richest –considerably better than now, of course, but less –and less rapid-- than one might hope, surely.

The 'stickiness' of relative regional poverty within countries suggests the importance of structural and institutional factors in explaining economic outcomes. It is matched by cross-country results suggesting a strong correlation between national incomes in 1820 and those of today,^{vii} or even strong evidence linking national technological progress in 1500 with economic prowess today.^{viii} It suggests that policies will have limits in terms of their efficacy in reducing inequalities both within and between nations.

The good news about intra-country regional inequality is that people living in poor regions can move to rich ones. Buffalo County (the poorest in the US) has a population just above 2,000, not much more than it had in 1900. Marin County (the richest) has a population of 247,000 people, sixteen times more than in 1900. Movement of people from areas of little opportunity to areas of rapid growth has greatly reduced the impact of regional inequality on national inequality across the World –according to Lant Pritchett it is the driving force for overall income convergence within countries.^{ix} The within-country variation of population growth is far larger, and of income growth is far smaller, than the variation between countries as a result.

But the evidence of the limited impact of 'micro-globalization' is especially depressing given that the most important element of the three policy components of globalization –free movement of peoples—is by far the least advanced. If rich countries increased their labor forces by only three percent through reduced restrictions on migrant labor, this would add \$300 billion to the welfare of citizens of poor countries --roughly four times the magnitude of foreign aid flows.^x Yet the current wave of globalization involves far less movement of people across borders than did the last wave around 1900, and there is little sign that rich countries are about to become much more open to new migrants.

Again, that poor places remain poor even when free movement of goods, services, finance and peoples is allowed suggests the limits to policy explanations of differing regional and national incomes around the world. As a result, the best and most rapid way to improve the livelihoods of those in poor places is to allow them to move to rich places. But this is the part of the policy agenda for globalization that is least advanced. In short, economic flat-earthers today look as far off-base as their seafaring forebears in the days of Magellan.

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ⁱⁱ http://en.wikipedia.org/wiki/Poorest_places_in_the_United_States

ⁱⁱⁱ http://en.wikipedia.org/wiki/Highest-income_counties_in_the_United_States

^{iv} Barro, R. & X. Sala-i-Martin (1992) Convergence *Journal of Political Economy*, University of Chicago Press, vol. 100(2), pages 223-51

^v Shankar, R. and A. Shah (2001) Bridging the Economic Divide within Nations, World Bank Policy Research Working Paper 2717.

^{vi} Hill, H. (2007) Globalization, Inequality and Local-Level Dynamics: Indonesia and the Philippines , paper prepared for AERP Conference Tokyo 09/29/07

^{vii} Kenny, C. (1999) Why Aren't Countries Rich? Weak States and Bad Neighbourhoods *The Journal of Development Studies* 35, 5, 1999.

^{viii} Comin, D, W. Easterly and E. Gong (2006) Was the Wealth of Nations Determined in 1000 B.C.? NBER Working Paper No. W12657

^{ix} Pritchett, L. (2004) Boom Towns and Ghost Countries: Geography, Agglomeration and Population Mobility CGD Working Paper 36.

^x Pritchett, L. (2006) *Let Their People Come*, Washington, DC: Brookings Institute Press.