

Twin Peaks:

How The World Is Polarizing Into Rich And Poor

The world is undergoing a sharp polarization across economies, clustering into the very rich and the very poor, while the middle-income class of countries is vanishing. That is the contention of Danny Quah in the latest issue of the *Economic Journal*. What's more, the emergence of these 'twin peaks' across economies applies equally to people within individual societies. This has powerful implications: both across countries and within societies, tensions between rich and poor can be moderated by visible middle-income classes providing an obvious bridge by which the poor can make the transition to being rich. As those middle groups disappear, such a release for social tensions will no longer be available.

Quah's analysis begins with the fundamental question of whether economic policy can influence long-run growth and allow poor countries to catch up with their richer rivals. Some countries have doubled their per capita incomes every decade. Others have stagnated at per capita income levels a hundred times lower than those in the leading economies. Differences in well-being across countries are enormous.

That catch-up might occur is known in economics as the 'convergence hypothesis'. The principal traditional finding is that convergence does occur, albeit at the relatively slow rate of 2% a year. In this reasoning, the poor are catching up with the rich, if only slowly.

Quah challenges this traditional wisdom on slow, steady catch-up, asserting that the reality of cross-country growth is something quite different. By directly examining the dynamics of the entire distribution of incomes across countries, Quah finds an 'emerging twin peaks' shape in that distribution. What appears to be happening is a clustering of the very rich and the very poor, while the middle-income class of countries is disappearing - the world is sharply polarizing into rich and poor.

This finding broadens the 'convergence hypothesis' debate. Quah argues that economic growth should be viewed not just in terms of either technological progress or applying more and better factor inputs to production. Economic growth, he claims, is not usefully divided into just 'endogenous' or 'exogenous' growth, to use economists' language.

Rather, economies interact with one another - growth in any given economy does not occur in isolation. Some countries share technology, culture, and institutions with each other; others do not. Countries trade with other countries: they profit from some; they lose to others. The 'emerging twin peaks' property simply provides a particularly stark depiction of this disparity between rich and poor.

Moreover, the disparity Quah discerns applies just as readily to convergence across people within societies as it does to convergence across economies. This has important implications for how social tensions between rich and poor may be moderated by visible middle-income classes. Without those middle groups providing a bridge by which the poor can become rich, tensions might no longer be released.

But that is not all. Some observers have speculated that it is the world-wide transition to knowledge-based production that is responsible for increasing the gap between rich and poor. This may well explain the emerging twin peaks - not just across countries but also across people within countries. However, knowledge-based production also increases intra-distribution mobility, regardless of the visible presence or otherwise of a middle class.

In economists' language, such production carries low fixed costs - it thus permits leapfrogging and overtaking. Historically, it has been much easier for the poor to advance through education - witness the recent experience of Asian Americans in the United States, and before them, of Jewish immigrants - than it is for them immediately to become captains of manufacturing industry. The producer of the next 'killer application' of the computer industry need have only the metaphorical garage surrounding her PC, not the heavy-metal construction plant that would be required to overtake General Motors.

Quah's research brings out a further subtlety: the twin peaks picture shows not only clusterings of rich and poor but also winners and losers, as some poor economies make the transition to being rich, and some rich economies to being poor. But while such patterns do occur, the overwhelming reality across the world is the picture of emerging twin peaks - a growing polarization between rich and poor.

ENDS

Note for Editors: 'Twin Peaks: Growth and Convergence in Models of Distribution Dynamics' by Danny T. Quah is published in the July 1996 issue of the Economic Journal. Quah is Professor of Economics in the Economics Department, London School of Economics and Political Science.

For Further Information: contact Danny Quah on 0171-955-7535 (email: D.Quah@lse.ac.uk; (URL) <http://cep.lse.ac.uk/homepage/dquah/>); or RES/ESRC Media Consultant for Economics Romesh Vaitilingam on 0171-878-2919 or mobile 0468-661095.