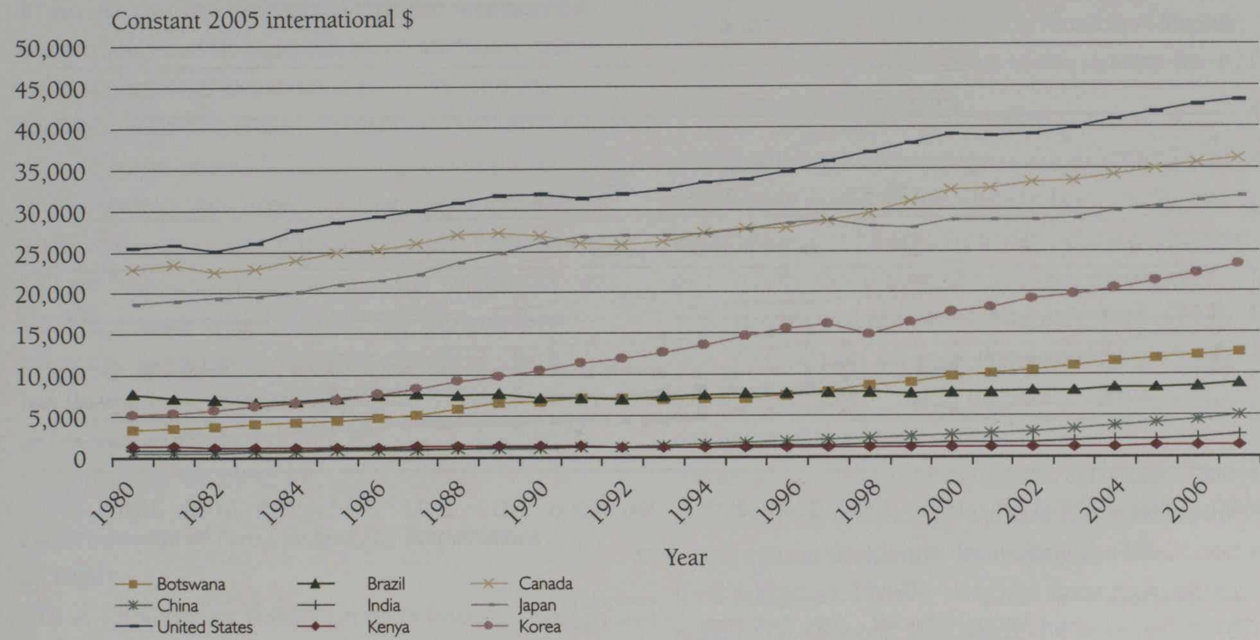
FIGURE 1
GDP per capita (PPP), 1980-2007



Source: Office of the Chief Economist
Data: World Bank

poorest, Liberia, is over 500 to 1. Two hundred and fifty years ago, it would perhaps have been around 5 to 1, and the broad difference between Europe and East and South Asia was smaller still, somewhere around 1.1-1.5 to 1.[5] Reliable earlier figures are not available, but one thing is fairly certain: prior to about 1750, no society had experienced sustained growth in per capita income. Average incomes stagnated not far from the level of production of an average farmer (subsistence level) with temporary deviations, quickly corrected by population growth. At any rate, nothing approaching the modern income gap between the rich and the poor nations existed in 1750 or at any earlier time. Inequality on that scale was only made possible by the Industrial Revolution.[6]

This inequality is too great to persist, and economic research predicts that it will not. Income **convergence** between the rich and the poor countries is a prediction of virtually all growth theories, starting with the classic Solow (1956) and Ramsey (1928) models. Growth in these models is a dynamic process that trends towards a certain steady-state income level. This steady income level may be different for different countries, and it may be continuously changed by parameters such as technological progress. Subject to these qualifications, these models state that economic growth is faster in poorer countries, as they are further from their theoretical maximum income than the richer countries.[7]

This suggests strongly that the differences in wealth observed today are part of a transitory phenomenon, and that the convergence of poorer nations

5 Estimates by Paul Bairoch, "Economics and World History," University of Chicago Press, 1999.

6 The above points have also been made eloquently in Robert Lucas, "The Industrial Revolution: Past and Future," 2003 *Annual Report Essay*, FRB of Minneapolis.

7 This concept, known as **conditional beta-convergence**, has received strong support in the economic literature.