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THE RICH AND THE POOR: CHANGES IN INCOMES OF DEVELOPING COUNTRIES SINCE 1960

Most countries in the world are getting richer. Incomes in some countries which were previously regarded as 'developing' have now caught up with incomes in advanced countries. Yet incomes in other countries, particularly the poorest, have not improved and have therefore declined relative to the rest of the world. We are used to the idea of a 'North-South gap', but this concept is not helpful when trying to understand the meaning of income, wealth, welfare and poverty. Whatever terms are used, and however we measure them, the global range of incomes remains wide. Many of the poorest countries, particularly in Africa, have seen little or no income improvement: their poverty clearly divides them from the rest of the world.

What can comparing incomes tell us?

The Purposes of comparisons

Understanding income changes for one country or among a group of countries is crucial to national policy choices. The performance of different policies in achieving higher incomes or faster growth should be one crucial measure of the success of different strategies of development. Some types of development aid or access to special privileges are tied to particular levels of 'low income'.

Have the differences among 'developing countries' grown, so that it is now no longer possible to think about the 'Third World' as a single category? Have the old boundaries between 'developed' and 'developing' changed? Has the gap between the richest and poorest countries widened or narrowed? These changes have important implications for international policies on trade and capital flows.

The sluggish world growth of the 1980s, increasing debt service and expectations that these factors will continue to depress incomes have sharpened concern over standards of living in the developing countries in general. More dramatic events like drought and civil war have focussed attention on some of the poorest. Falling incomes in poor countries or a failure to keep pace with those in the richer countries is contrary not only to the expectation that growth is normal, but also to the implicit purposes of the structural changes which are the essence of development, and to the explicit aims of aid programmes.

How to make comparisons

What is poverty? What do we mean by better living standards? We cannot answer these questions without first of all deciding whether to refer to relative or absolute standards of poverty. There will always be groups of people or countries which are in the bottom ten per cent of any defined group, even though their identity may change over time. If poverty is defined relative to average income, then a measurement of the rise or fall of certain groups' incomes will reflect individual changes and overall distribution of income. An absolute level is difficult to define because as the global level of income rises, standards of 'low' and 'acceptable' also rise.

A basic standard is gross domestic product (GDP), the

Box 1
GDP as a measure of welfare

GDP measures the value of all goods and services produced in a country, spending on them, and the income derived from this. For comparisons over time, all years are valued at one 'base' year's prices. This gives 'real' changes in GDP; figures for individual years (for example, GDP in 1985 measured by prices in 1980) can be called 'real' GDP to distinguish them from GDP measured by 1985 prices. To compare income in countries of different sizes, it can be divided by population to find the (real) GDP per capita. GDP includes government and other institutional income or spending, so GDP per capita includes the average value of this spending for each person. Conventional personal income is therefore lower than GDP per capita. On the other hand, the average income per household would be substantially higher because the figures relate to individuals, including children and the old who may not actually be earning.

The ethical, theoretical, and practical difficulties surrounding GDP measurement even for a single country can only be summarised here, emphasising those most relevant to international comparisons.

● GDP excludes, or measures inadequately, goods and services which are not sold. This omission may not be significant for a single country if non-marketed goods or services do not vary over the short- or medium-term, or when comparisons are made among countries with similar non-market sectors. But for long-term assessments (say over 25 years) and for comparisons among countries with very different economic and social structures, it does. The distortions should therefore be minimised by adjusting carefully for known differences in prices and economic structure. A measurement of GDP will include everything that can be reliably measured. It is therefore a more accurate measurement of welfare than a measure of personal income or private consumption, which may or may not take into account those services (health and education are major examples) which are sometimes provided publicly and sometimes come out of personal spending.

● This method of measurement could be criticised for failing to allow properly for permanent damage to non-renewable resources. In principle, an efficient pricing system should do this; in practice, it probably does not. In this case again, GDP still produces a better measurement than any practical alternative.

● Some spending may be unproductive or even damaging; it may be needed to compensate for previous damaging expenditure (arms or some curative health spending are examples). But if we accept GDP as a measure of the potential capacity of a country's income, whether the income is 'wasted' or not is a question of judgment not entering into the measurement.

● Further difficulties arise because of inequalities among groups of people or among regions. Comparing countries' average incomes may not give a good indication of the differences between the most common incomes. If there have been large changes in income distribution, this could also affect interpretation of changes over time. These are not allowed for here because a country has the potential to change policies on distribution, and because of the practical difficulty of obtaining reliable and comparable measures of income inequality.

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Box 2
Using GDP to make comparisons

When comparing incomes across time or across countries, figures must be adjusted for price differences. The practical difficulties of finding actual prices in one country include discounting, bargaining or parallel markets, and goods provided publicly at administered prices or without charge. Some goods are scarcer in some countries (for example machinery in developing countries, or personal services in rich but egalitarian countries). In addition, price rises and improvements in a product over time are difficult to distinguish. All these factors differ from country to country, and thus the problems of comparison are increased. No one set of relationships among prices is the 'right' one to use for measurement, and the problem is compounded because spending patterns alter to avoid the more expensive goods.

International comparisons are based on two approaches:

- The first converts all national accounts in question (nominal or real) to the same currency (usually the US dollar) by using normal exchange rates. If GDP is a measure of potential, the international value of a country's output is in some sense its 'real' value. This concept is useful when assessing a country's ability to meet international obligations, for example contributions to international institutions or repayment of debts.
- The second approach avoids the use of exchange rates. In a period in which they fluctuate widely, countries' relative incomes appear to change drastically from year to year in a way which intuitively seems wrong. Most domestic prices and incomes are not immediately affected by exchange rate changes and people do not experience changes in income simply because their purchases have a changed value at international prices. Efforts have therefore been made to construct at the international level the same type of product-by-product measures of prices and real income used for national time-series: the *UN International Comparisons Project* (ICP) was started in 1968 and full results for the fourth round have now been published. In each round, the ICP makes cross-country comparisons for individual products for a 'benchmark year' (1970, 1973, 1975, and 1980; 1985 is the subject of phase five). The number of countries included in detail has increased to sixty for the 1980 study. These results have been used to construct series from 1950 to 1985 for 130 countries, at 1980 prices by using national accounts data and by allowing for spending patterns.

The data problems are clearly immense, but there is encouraging consistency between benchmark years. The estimates made by the project for the non-benchmark countries seem less reliable, but the increase in the number of countries covered in the survey (doubled between phases 3 and 4) has reduced the need for estimates. The countries included in our tables are mostly ICP benchmark countries, although some of the smaller ones were excluded, while some Asian and African countries were added using the ICP estimates. The major Middle Eastern oil exporters were not included in the benchmark countries so the ICP estimates for them are not used.

fullest single measure of national income (see Box 1). However, it is difficult to collect data for the varied types of income (and spending) which can be compared effectively according to uniform measures, and any figures must be assumed to have a wide level of uncertainty. Making proper allowance for changes in prices and quality of goods and services poses major statistical difficulties, and frequently problems of judgment as well. The figures even for single countries therefore have a wide band of uncertainty.

The problems of comparing the 'real income' or 'welfare' of different groups with different patterns of income and expenditure are greater in a cross-country comparison than they are for different groups within one country. Variable exchange rates make measurement more difficult.

Any measure of income, however, remains an indirect measure of welfare, which is the basic objective of individuals and governments. Although it may be impossible to reach any consensus on what this means, or even on the measurable economic or social elements which it should include, most countries and observers would accept some basic indicators of health and education as objectives. These are similar to GDP in giving a measure of potential: of access to possibilities of improved welfare, without specifying particular patterns of development or spending. If goods, services, or types of output (for example of manufacturing) were examined in greater detail, even though regular differences may appear between richer and poorer countries, the comparisons would reflect the political choices and priorities of different countries or their particular natural conditions, rather than an objective standard.

Particularly useful figures are from the UN International Comparisons Project (ICP) which tackles the problem of measurement directly by looking at prices for a common range of individual goods and spending patterns within countries (see Box 2).

How incomes have changed

Average global income has risen because world GDP has grown faster than population. Income differences among most countries are not as great as simple comparisons suggest when better income figures and direct measures of health and education are used. In average and upper middle-income developing countries, incomes are starting to approach the levels that 'rich' countries enjoyed 25 years ago. A few countries have moved from the middle band up to, or near, the present level of the rich countries. Even in 1960, a few developing countries, mainly in Latin America, had similar incomes to the poorer European countries. Since then, some Asian countries have approached European levels. Up to the mid-1970s, differences between countries were probably diminishing, but this is less evident now (except in relation to health). Using any measure, there is a clear group of countries at the bottom, mainly in Africa, where there has been little absolute progress and a persistent decline in income relative to the rest of the world.

The 63 countries given in the tables here were chosen to represent a spread of incomes and to give a geographical range, and to include most large countries, and countries whose experience is particularly interesting. The tables clearly show, however, that results vary according to the way in which income is measured. Table 1 shows for 1985 the three measures of GDP per capita described in Boxes 1 and 2. Column 3 gives the national measure at 1985 prices, converted to dollars. Column 2 gives the same measure, but using 1980 prices and exchange rates. Although the different prices and exchange rates affect the ranking of countries, there are few dramatic changes in position. Column 1 uses the ICP figures (which adjust for purchasing power), again with 1980 as a base. A striking result of this measurement comparison is the way in which ICP reduces the disparity between most low-income countries and the most advanced. Middle- to upper-middle-income countries' relative positions are changed, but the sub-Saharan Africa countries are less affected than the poorer Asian countries, and thus become more concentrated at

Box 3
Using measurements as aid criteria

The United Nations has defined a group of 41 Least Developed Countries (lldcs) using per capita income, share of manufacturing in output, and a social indicator. Most of these are too small, or cannot provide adequate data, to be included in these tables. We have, however, been able to include Malawi, Mali, Tanzania, and Ethiopia (which have remained in the lowest income group) as well as Bangladesh and Haiti.

The countries eligible for World Bank International Development Association credits (those with an income below \$835 at 1986 prices) would fall below a level of about \$2,000 when assessed at 1980 prices, using ICP (table 1, column 1). This suggests that the difference between using this and a \$400 to \$500 cut-off point is larger than the non-ICP measure indicates (table 1, columns 2-3).

Some other bilateral and multilateral aid programmes use a level of around \$1,000 to \$1,300 to identify those eligible for some special treatment, but less than the poorest. Because the discrepancy between ICP (see Box 2) and conventional measures decreases rapidly at this point, the difference is less marked on the ICP scale, which raises the cut-off point to a level around \$2,100.

Table 1
Three measures of GDP per capita in 1985 in US dollars

	1		2		3
	International or real national accounts 1980 international dollars		At 1980 prices and exchange rates		At 1985 prices and exchange rates
			conventional national accounts		
			US$		US$
Norway	12623	Norway	16413	US	16759
US	12532	Germany, FR	14235	Norway	13799
Canada	12196	France	12973	Canada	13431
Germany, FR	10708	US	12843	Japan	11014
France	9918	Belgium	12563	Australia	10481
Belgium	9717	Netherlands	12285	Germany, FR	10270
Japan	9447	Canada	11633	France	9466
Hong Kong	9093	Austria	11004	Austria	8692
Netherlands	9092	Australia	10968	Netherlands	8692
Austria	8929	Japan	10636	Belgium	8186
Australia	8850	UK	10384	UK	8127
UK	8655	Italy	8647	Italy	6224
Italy	7425	Hong Kong	6472	Hong Kong	6170
Spain	6437	Ireland	5947	Israel	5404
Israel	6270	Spain	5937	Ireland	4600
USSR	6266	Israel	5863	Spain	4204
Hungary	5765	Argentina	4599	Greece	3339
Ireland	5205	Greece	4315	Taiwan	3097
Yugoslavia	5063	Venezuela	3204	Venezuela	2750
Poland	4913	USSR	3037	USSR	2449
Greece	4464	Taiwan	2871	Argentina	2153
Mexico	3985	Yugoslavia	2818	South Korea	2039
South Africa	3885	South Africa	2591	Hungary	1936
Portugal	3729	Portugal	2576	Yugoslavia	1913
Taiwan	3581	Mexico	2569	Portugal	1909
Venezuela	3548	Hungary	2270	Poland	1894
Argentina	3486	Chile	2231	Mexico	1872
Chile	3486	South Korea	2192	Malaysia	1844
Malaysia	3415	Brazil	2028	South Africa	1600
Brazil	3282	Malaysia	2005	Brazil	1585
South Korea	3056	Tunisia	1404	Ecuador	1578
Colombia	2599	Ecuador	1392	Guatemala	1363
Turkey	2533	Turkey	1388	Chile	1320
Ecuador	2387	Colombia	1295	Colombia	1160
Peru	2114	Ghana	1126	Tunisia	1151
Tunisia	2050	Cote d'Ivoire	1041	Turkey	1069
Thailand	1900	Guatemala	935	Bolivia	795
Guatemala	1608	Morocco	932	Nigeria	768
Sri Lanka	1539	Peru	847	Thailand	718
Philippines	1361	Thailand	832	Peru	708
Indonesia	1255	Zimbabwe	820	Cameroon	698
Morocco	1221	Nigeria	793	Cote d'Ivoire	641
Egypt	1188	Cameroon	791	Philippines	584
Pakistan	1153	Bolivia	691	Zimbabwe	583
Cameroon	1095	Egypt	621	Morocco	552
Bolivia	1089	Philippines	611	Egypt	529
Zimbabwe	948	Zambia	607	Indonesia	499
Cote d'Ivoire	920	Indonesia	552	Ghana	461
China	825	Kenya	399	Zambia	389
Senegal	754	Pakistan	339	Haiti	377
India	750	Madagascar	318	Sri Lanka	376
Kenya	698	Sri Lanka	313	Pakistan	337
Bangladesh	647	India	282	Tanzania	283
Haiti	631	China	273	Kenya	277
Zambia	584	Haiti	259	India	261
Nigeria	581	Tanzania	247	Madagascar	235
Madagascar	495	Zaire	215	China	222
Malawi	387	Malawi	193	Malawi	159
Mali	355	Bangladesh	157	Bangladesh	152
Tanzania	355	Ethiopia	112	Ethiopia	111
Ghana	349			Zaire	79
Ethiopia	310				
Zaire	210				

the bottom of the column.

Poor and rich countries today

If we are looking at the achievement of certain minimum, and then higher, incomes as an indicator of a country's performance, column 3 of table 1 provides the easiest way to apply our current perceptions of what income levels mean. These data have been used to define one possible division of countries into 'rich', 'poor', and upper and lower middle income groups, which is given in table 2.

The lowest level corresponds closely to some international definitions of the poorest (see Box 3). The median income level in table 1, column 3 (that of the middle country in the ranking) is about $1,600, the level of some major Latin American or Eastern European countries. The poorest countries are defined as below $400 which is a quarter of the median. The most advanced countries enjoy an income which is at least four times the median ($6,400), slightly below the UK and close to Italy or Hong Kong. A band of roughly average countries is defined as $1,000 to $2,000. This leaves two intermediate groups: the richer developing and poorer European in the higher group, and the richer African and poorer Asian in the other. Using these definitions, and 1980 prices, the 'rich' correspond to those with incomes above $7,400, the poor to those with incomes below $450, and the middle to those with incomes between $1,200 and $2,300. The ICP figures (table 1, column 1) give a similar group of 'rich' countries, but a much larger number of countries in the upper-middle-income range: the middle country in this column has an income of $2,600.

Changes in income and relative income

Table 2 shows that the countries below the 'poverty line' have scarcely changed since 1960. Many of the countries in

Table 2: Changes in national income over time

Income per capita (1980 international dollars)	1960	1965	1970	1975	1980	1985
Above 7,400	US	US	Canada Germany, FR US	Australia Belgium Canada France Germany, FR Netherlands Norway US	Australia Austria Belgium Canada France Germany, FR Japan Netherlands Norway UK US	Australia Austria Belgium Canada France Germany, FR Hong Kong Italy Japan Netherlands Norway UK US
2,300-7,400	Argentina Australia Austria Belgium Canada Chile France Germany, FR Hungary Ireland Israel Italy Netherlands Norway Poland South Africa Spain UK USSR Venezuela	Argentina Australia Austria Belgium Canada Chile France Germany, FR Hong Kong Hungary Ireland Israel Italy Japan Mexico Netherlands Norway Poland South Africa Spain UK USSR Venezuela	Argentina Australia Austria Belgium France Greece Hong Kong Hungary Ireland Israel Italy Japan Mexico Netherlands Norway Poland Portugal South Africa Spain UK USSR Venezuela Yugoslavia	Argentina Austria Brazil Chile Greece Hong Kong Hungary Ireland Israel Italy Japan Mexico Peru Poland Portugal South Africa Spain UK USSR Venezuela Yugoslavia	Argentina Brazil Chile Colombia Ecuador Greece Hong Kong Hungary Ireland Israel Italy Malaysia Mexico Peru Poland Portugal South Africa South Korea Spain Taiwan USSR Venezuela Yugoslavia	Argentina Brazil Chile Colombia Ecuador Greece Hungary Ireland Israel Malaysia Mexico Poland Portugal South Africa South Korea Spain Taiwan Turkey USSR Venezuela Yugoslavia
1,200-2,300	Colombia Greece Guatemala Hong Kong Japan Mexico Peru Portugal Turkey Yugoslavia	Brazil Colombia Ecuador Greece Guatemala Malaysia Peru Portugal Turkey Yugoslavia	Bolivia Brazil Colombia Ecuador Guatemala Malaysia Peru South Korea Tunisia Turkey	Bolivia Colombia Ecuador Guatemala Malaysia Philippines South Korea Taiwan Thailand Tunisia Turkey	Bolivia Guatemala Morocco Philippines Thailand Tunisia Turkey	Guatemala Indonesia Morocco Peru Philippines Sri Lanka Thailand Tunisia
450-1,200	Bolivia Brazil Cameroon China Cote d'Ivoire Ecuador Egypt Ghana Guatemala Haiti India Indonesia Kenya Madagascar Malaysia Morocco Nigeria Pakistan Philippines Senegal South Korea Sri Lanka Taiwan Thailand Tunisia Zambia Zimbabwe	Bangladesh Bolivia Cameroon China Cote d'Ivoire Egypt Ghana Haiti India Indonesia Kenya Madagascar Morocco Nigeria Pakistan Philippines Senegal South Korea Sri Lanka Taiwan Thailand Tunisia Zambia Zimbabwe	Bangladesh Cameroon China Cote d'Ivoire Egypt Ghana Haiti India Indonesia Kenya Madagascar Morocco Nigeria Pakistan Philippines Senegal Sri Lanka Taiwan Thailand Zambia Zimbabwe	Bangladesh Cameroon China Cote d'Ivoire Egypt Ghana Haiti India Indonesia Kenya Madagascar Nigeria Pakistan Senegal Sri Lanka Zambia Zimbabwe	Bangladesh Cameroon China Cote d'Ivoire Egypt Haiti India Indonesia Kenya Madagascar Nigeria Pakistan Senegal Sri Lanka Zambia Zimbabwe	Bangladesh Bolivia Cameroon China Cote d'Ivoire Egypt Haiti India Kenya Madagascar Nigeria Pakistan Senegal Zambia Zimbabwe
Below 450	Bangladesh Ethiopia Malawi Mali Tanzania Zaire	Ethiopia Malawi Mali Tanzania Zaire	Ethiopia Malawi Mali Tanzania Zaire	Ethiopia Malawi Mali Tanzania Zaire	Ethiopia Ghana Malawi Mali Tanzania Zaire	Ethiopia Ghana Malawi Mali Tanzania Zaire

Table 3
Life Expectancy (years at birth)

1960	1985
70 and above	
Australia	Argentina
Belgium	Australia
Canada	Austria
France	Belgium
Netherlands	Canada
Norway	Chile
UK	France
US	Germany, FR
	Hong Kong
	Hungary
	Ireland
	Israel
	Italy
	Japan
	Netherlands
	Norway
	Poland
	Portugal
	Spain
	Taiwan
	UK
	US
	USSR
	Venezuela
	Yugoslavia
51-69	
Argentina	Bangladesh
Austria	Bolivia
Brazil	Brazil
Chile	Cameroon
China	China
Colombia	Colombia
Ecuador	Cote d'Ivoire
Germany, FR	Ecuador
Greece	Egypt
Hong Kong	Ghana
Hungary	Greece
Ireland	Guatemala
Israel	Haiti
Italy	India
Japan	Indonesia
Malaysia	Kenya
Mexico	Madagascar
Poland	Malaysia
Portugal	Mexico
South Africa	Morocco
South Korea	Nigeria
Spain	Pakistan
Sri Lanka	Peru
Taiwan	Philippines
USSR	South Africa
Venezuela	South Korea
Yugoslavia	Sri Lanka
	Tanzania
	Thailand
	Tunisia
	Turkey
	Zaire
	Zambia
	Zimbabwe
50 and below	
Bangladesh	Ethiopia
Bolivia	Malawi
Cameroon	Mali
Cote d'Ivoire	Senigal
Egypt	
Ethiopia	
Ghana	
Guatemala	
Haiti	
India	
Indonesia	
Kenya	
Madagascar	
Malawi	
Mali	
Morocco	
Nigeria	
Pakistan	
Peru	
Philippines	
Senegal	
Tanzania	
Thailand	
Tunisia	
Turkey	
Zaire	
Zambia	
Zimbabwe	

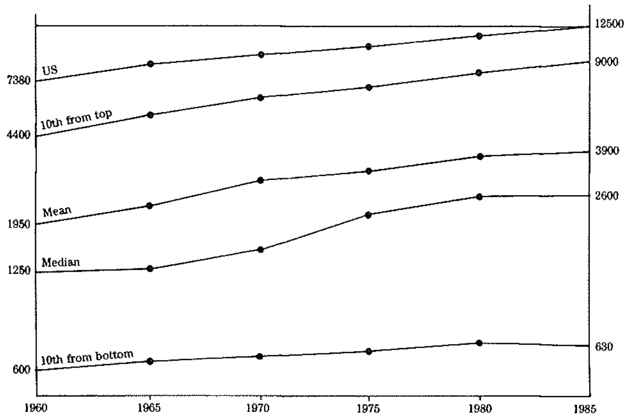
Table 4
Infant Mortality (deaths per 1,000)

1960	1985
15 or fewer	
	Australia
	Austria
	Belgium
	Canada
	France
	Germany, FR
	Hong Kong
	Ireland
	Israel
	Italy
	Japan
	Netherlands
	Norway
	Spain
	UK
	US
16-50	
Australia	Argentina
Austria	Chile
Belgium	China
Canada	Colombia
France	Greece
Germany, FR	Hungary
Greece	Malaysia
Hong Kong	Mexico
Hungary	Philippines
Ireland	Poland
Israel	Portugal
Italy	South Korea
Japan	Sri Lanka
Netherlands	Thailand
Norway	USSR
Spain	Venezuela
UK	Yugoslavia
US	
USSR	
51-99	
Argentina	Brazil
Colombia	Cameroon
Guatemala	Ecuador
Malaysia	Egypt
Mexico	Ghana
Poland	Guatemala
Portugal	India
South Africa	Indonesia
South Korea	Kenya
Sri Lanka	Morocco
Venezuela	Peru
Yugoslavia	South Africa
	Tunisia
	Turkey
	Zambia
	Zimbabwe
100 and above	
Bangladesh	Bangladesh
Bolivia	Bolivia
Brazil	Cote d'Ivoire
Cameroon	Ethiopia
Chile	Haiti
China	Madagascar
Cote d'Ivoire	Malawi
Ecuador	Mali
Egypt	Nigeria
Ethiopia	Pakistan
Ghana	Senegal
Haiti	Tanzania
India	Zaire
Indonesia	
Kenya	
Madagascar	
Malawi	
Mali	
Morocco	
Nigeria	
Pakistan	
Peru	
Philippines	
Senegal	
Tanzania	
Thailand	
Tunisia	
Turkey	
Zaire	
Zambia	
Zimbabwe	

Table 5
Primary school enrolment (%, relevant age group)

1960	1984
Effectively universal 95 or above	
Argentina	Argentina
Australia	Australia
Austria	Austria
Belgium	Belgium
Brazil	Brazil
Canada	Cameroon
Chile	Canada
France	Chile
Germany, FR	China
Greece	Colombia
Hungary	Ecuador
Ireland	France
Israel	Germany, FR
Italy	Greece
Japan	Hong Kong
Malaysia	Hungary
Netherlands	Indonesia
Norway	Ireland
Philippines	Israel
Poland	Italy
Portugal	Japan
Spain	Kenya
Sri Lanka	Madagascar
UK	Malaysia
US	Mexico
USSR	Netherlands
Venezuela	Norway
Yugoslavia	Peru
Zimbabwe	Philippines
	Poland
	Portugal
	South Korea
	Spain
	Sri Lanka
	Thailand
	Tunisia
	Turkey
	UK
	US
	USSR
	Venezuela
	Yugoslavia
	Zaire
	Zambia
	Zimbabwe
51-94	
Bolivia	Bangladesh
Cameroon	Bolivia
Colombia	Cote d'Ivoire
Ecuador	Egypt
Egypt	Ghana
Hong Kong	Guatemala
India	Haiti
Indonesia	India
Madagascar	Malawi
Malawi	Morocco
Mexico	Nigeria
Peru	Senegal
South Africa	Tanzania
South Korea	Zaire
Thailand	
Tunisia	
Turkey	
Zaire	
less than 50	
Bangladesh	Ethiopia
Cote d'Ivoire	Mali
Ethiopia	Pakistan
Ghana	
Guatemala	
Haiti	
Kenya	
Mali	
Morocco	
Nigeria	
Pakistan	
Senegal	
Tanzania	
Zambia	

Changes in income 1960-1985 (1980 international dollars, log scale)



the middle three groups have moved up at least one division, with some 'NIEs' (newly industrialised economies) advancing from 'lower' to 'upper' middle income. Many of the African countries, however, have remained 'lower middle' or poor.

The income range now occupied by the better performing Asian and Latin American countries corresponds to the 1960 level of the poorer European countries. South Korea and Brazil, for example, are now at a level similar to that of Italy in 1960, while Colombia or Turkey would occupy a position similar to that then occupied by Ireland or Spain.

Growth in the lowest category, and at the lower end of the countries with below-average income, has been much slower. Using data for national accounts (as in table 1, column 2) the World Bank estimates growth rates for similar income groups: from 1965 to 1985, per capita income in low-income countries (under $400, excluding China and India) grew less than 0.5% a year; in China and India at 3.5%; in the lower-middle-income group ($400-$1,600) at 2.6%; and in the upper-middle-income group including only 'developing' countries ($1,600-$7,420) at 3.3%. The differences in growth rate are greater than those indicated in table 2, where for 1985 the 'low income' group does not include those who have grown out of that class.

The graph shows the general rise in real incomes over the past 25 years, with the increase in the mean (a simple average of the countries) relative to the median confirming the more rapid growth of the higher income countries. The figures for the tenth country from the top and from the bottom in each year indicate roughly the changes for the fairly rich and fairly poor (in relative terms). The greater rise for the rich is clear. It can also be seen how middle-income countries have 'caught up'. A country with income at the median level in 1985 would have been in the top quarter in 1960.

The US had the highest income in 1960. In 1985 it retained this position at 1985 exchange rates (the dollar was high), but not at 1980 exchange rates. This apparently confirms the observation in the 1975 ICP report of 'the general tendency for per capita incomes relative to the United States to rise through time for most countries'. But after 1975, although the richest countries continued to approach the US level, the middle-income groups' relative growth rate slowed, while that of the lowest- income group was never significant.

Education and health

Life expectancy and infant mortality improved for all countries (except once again, for the poorest). The divisions in tables 3-4 were chosen to indicate the typical situation now for rich and poor countries. In many of the lower-income countries, life expectancy increased by as much as ten years. The best improvements in the infant mortality rate have been in countries which have moved from the lowest to the intermediate groups, although there has been clear progress at all levels.

The figures for primary school education (table 5) show that this is now effectively universal in all but the poorest countries; this was not the case even for some above-average income countries in 1960. Secondary enrolment also rose overall from some very low levels in 1960. More than two thirds of the countries had levels below 30% in 1960, compared to only a quarter in 1985; only two countries had a level above 70% in 1960; in 1985, however, a third of all countries had secondary enrolment at this level. The increases for many have been extremely large (Zimbabwe and Indonesia from 6% to 39%; Hong Kong and South Korea trebling from higher bases), but secondary enrolment figures for the poorest remain extremely low (under 15% for Tanzania, Malawi, Mali and Ethiopia).

The infant mortality, life expectancy and enrolment statistics suggest that better progress has been made, especially by fairly poor countries, than the income measurements would suggest. But the contrast between the poorest and the rest is again stark. There are, however, many individual divergences. On all welfare measures, Sri Lanka is well above its income ranking, while some of the Latin American countries are seriously below, especially in relation to health. Income levels are not, therefore, an inescapable constraint on welfare growth.

What these changes mean for policy

- Different methods of assessment produce different income levels or relative positions for a given country. Considerable caution must therefore be exercised when attempting to classify countries, particularly when using conventional national accounts.
- Social, economic and financial indicators should be taken into account when measuring or monitoring a country's performance, its progress, regression or recovery.
- Some conventional terminology can be called into question:
  — the 'Third World' is not a bloc in terms of income and wealth, but a very heterogeneous grouping of nations
  — some countries in the 'South' overlap with those of the 'North'; not only have some of the former 'caught up' recently (particularly in East and S E Asia), but some in Latin America were already 'ahead' a generation ago.
- The achievement of high levels of income by some countries shows that it is possible to 'catch up' to the advanced level. These successes may provide evidence on which to base future domestic policies.
- There is a blurred boundary between 'advanced' and 'developing', and many countries which we call 'developing' are actually 'advanced' by 1960 standards. There is thus a case for examining how we perceive individual countries' roles in the international trade and financial system, since there is no obvious frontier between the 'developed' and the rest.
- The poorest countries can be identified, nonetheless, and treated differently. They are clearly separated from other developing countries by the level of their income, their rate of growth, or direct measures of health and education.

Sources: R. Summers, A. Heston, 'A New Set of International Comparisons', *Rev. Income and Wealth* 1988,1; I B Kravis, Heston, Summers, *World Product and Income*, 1982. Other data from IMF, UN, World Bank. The assistance of Donald Roy is gratefully acknowledged. For further information or the full data on which the tables are based, please contact Sheila Page, ODI.

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