Editor’s Preface

This book by Sebastian Vollmer contributes to the empirical literature on economic and human development from a range of different perspectives.

The first three essays are concerned with the world income distribution, studying its shape and evolution over time. The first essay presents a new parametric test for bimodality of a density. The test is more powerful than its nonparametric counterparts given that certain parametric assumptions are reasonable. The essay also includes an application of this new methodology to the cross-sectional distribution of per capita log GDP across EU regions from 1970 to 1993. In fact, the test is able to identify convergence from two modes to one mode in this data set, while alternative tests are not able to do so.

The second essay challenges the famous Twin Peaks claim by Danny Quah concerning the shape of the global income distribution. Vollmer argues that the number of modes of a distribution is not robust towards rescaling of the data (for example taking logs). Although information on the number of modes might be useful for proper visualization of the data, it is not appropriate to derive conclusions concerning the number and development of convergence clubs. The empirical model of Vollmer’s essay overcomes these shortcomings, and it turns out that the world’s cross-country income distribution consists of three components since 1976 (and two components beforehand). The three components are diverging since 1976, i.e. the richest component is growing faster than the middle component and the middle component is growing faster than the poorest component both in relative and absolute terms. In a posterior analysis probabilities of belonging to a certain component in a given year are assigned to each country.

In the third essay, Vollmer focuses on a related, but fundamentally different question, namely the evolution of the global income distribution where the units of analysis are individuals rather than countries. The essay is original because of its unprecedented detail by generating global growth incidence curves for given time periods and also global regions which allows identifying the pro-poorness of past growth. Moreover, the essay finds that the global income distribution has experienced convergence since 1970, as the bottom-middle part of the distribution grew the fastest. These findings go hand in hand with declining poverty rates and absolute number of poor with Sub-Saharan Africa and Latin America being exceptions. The most remarkable decline took place during the late 1970s and early 1980s. Most notably are the significant positive changes in the regional distributions of South Asia and East Asia. Overall global inequality declined slightly due to a decrease in between country inequality, which however is counteracted by a slight increase of within country inequality.
In the fourth essay, Vollmer analyzes the welfare effects of recently negotiated Economic Partnership Agreements between the European Union and African countries. The essay provides some background information on how the Economic Partnership Agreements evolved and then turns to a standard trade model in order to estimate whether consumption and trade creation effects outweigh trade diversion effects. The essay extends the literature in this field significantly by estimating elasticities of import demand from highly disaggregated data and applying the actual negotiated tariff reduction rates in the estimation of the agreement’s welfare effects. It is a strength of the essay to use the empirical results for an extensive discussion of policy conclusions.

In the fifth essay, Vollmer investigates whether democracy promotes the non-income dimensions of human development. The theoretical argument focuses both on quantitative aspects in form of redistribution as well as qualitative aspects such as accountability and needs oriented policies in democracies. Democracy is identified to have positive and highly significant impact on human development in a panel framework controlling for GDP per capita, inequality, fractionalization, HIV among other variables. Interestingly, the interaction effects of democracy with GDP per capita, inequality, fractionalization and education turn out to be insignificant or not robust. This implies that democracy itself is important for human development and less the circumstances under which it occurs.

These essays all make important contributions to the empirical literature on economic and human development and I am pleased that this book has been included in our series of studies on development economics.

Prof. Stephan Klasen, Ph.D.
Göttingen, July 2009