Hayden Fuller
Professor Klein
Economics of Growth and Innovation
24 February 2023

A Brief Analysis of 'Convergence to Convergence'

'Converging to Convergence' revisits studies and empirical tests from the '90s about the idea of convergence, how poor economies are able to grow faster to catch up to rich ones, and uses the next 25 years of data to test and analyze these previous conclusions and to draw new conclusions of their own. The idea of unconditional convergence has failed to match data in the past, as only countries that are similar in terms of factors that correlate to growth will converge, which we call conditional convergence. These factors, or correlates, include education quality, system of government, investment rates, culture, and much more. While we've found that convergence is historically only conditional, this paper finds that this has been changing over the past few decades.

This paper analyzes how income has converged and how these correlates have themselves converged, and more importantly, how these two trends are linked and how they've changed over time. Along with the analysis of these data and calculations, the paper offers several possible explanations and compares these results to the explanations of previous literature. Answering these questions aids in our understanding of what's been happening to the world economy and allows us to attempt to explain why. This better understanding of the world's economy and what moves it allows for more informed decisions to be made about topics ranging from poverty to policy to allocation of resources.

The methodology comparing the wealth and growth rate of economies and comparing growth rates to correlates is nothing new, but what makes it stand out is what was then done past that. They look at these correlations and how they've changed over decades, and while a rate of convergence over any given period may not be particularly interesting, looking at how it changes over several decades brings out new patterns, ideas, and questions.

The paper found that firstly, while we've seen divergence in income for centuries, there's been a trend toward convergence since the late '80s and there's been significant convergence since 2000, partially due to the richest countries' growth rates stagnating, and partially due to everyone else's growth rates increasing. Secondly, the paper found convergence of correlates during this period, meaning that countries became more similar, and that generally, it was the poor countries becoming more similar to the rich.

I find this paper to be quite interesting and insightful, and overall a very enjoyable read. The paper offers a very interesting The last few decades have shown more and stronger convergence across a broader range of countries, a stark contrast to the divergence and conditional convergence we've traced centuries back. It implies that the world has come to a turning point, somewhere around the fall of the USSR and the adoption of economic ideas from the Washington Consensus, where a rapid growth in democracy, globalization, more widespread access to information and international finance, and many more factors have allowed correlates of economic growth to converge, meaning countries become more similar, and since all countries are becoming similar, they will converge unconditionally. These correlates also converge in the direction of the rich countries, meaning that this absolute convergence is also in the direction of wealth, meaning that this is a positive impact on the world as a whole, as impoverished countries are brought up. It would be difficult to apply these results to many situations, but they could certainly be used in policymaking in order to promote growth in impoverished nations and around the world.

The first thought and question that this brings to my mind, is that if this continues, what will the long-term effects be? Specifically, how will this affect the "power dynamics" of the world? If everyone is rich, is anyone really rich? Overall wealth will surely increase, but currently, being more wealthy than another country allows you to, for example, offshore jobs to them for significantly lower labor costs. What will happen when these countries that offer cheap labor catch up and start demanding higher wages? How will this affect our trade with those countries, and how will this affect us domestically? My intuition points towards higher wages in countries that currently offshore as there's less incentive to offshore jobs, and therefore more demand for labor. This could also lead to the downfall of cheap and disposable products since as the cost of labor increases the price of the product, it should be optimal to increase the cost of material inputs as well. I would hope that this shift towards higher quality products would also mean products that last longer, having a positive environmental impact. Also, would this incentivize rich countries to do something to hold others back in order to maintain their source of cheap labor?

I don't believe these are questions that could be answered by any academic paper since this unconditional convergence is only something that has just begun that we expect might continue into the future, but it's interesting to think of what unexpected implications this may have if this continues far into the future, and I hope to see continued analysis of these ideas with continued data in decades to come.

Kremer, M., J. Willis, and Y. You (2022). Converging to convergence. NBER Macroeconomics Annual 36 (1), 337–412.