

The Millennium Peak in Club Convergence - A New Look at Distributional Changes in the Wealth of Nations

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Paper Abstract: The convergence debate of whether poorer countries are catching up with richer ones has recently focused on the concept of club convergence, hence convergence within groups of countries. Detecting club convergence in the distribution of countries' income per capita over time has, however, proved difficult. I propose a novel indicator that captures intradistributional changes in one number: With two clusters involved, changes in the critical bandwidth for unimodality reflect modes becoming more or less pronounced, which, respectively, is evidence for club convergence or de-clubbing. Significance of the change can be determined in a bootstrap procedure, while working with standardized densities removes the influence of time-varying variance. For a 123-country income per capita distribution, the new club convergence indicator shows that in the 1980s and 1990s, groups of poor and rich countries converged to two separate points. But this development peaked at the turn of the millennium and has since been followed by a de-clubbing movement, as some formerly poor countries are growing fast to catch up with the rich.